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No. 91-___

In The

Supreme Court of the United States

October Term, 1991

Professional Real Estate Investors, Inc.,
and
Kenneth F. Irwin,

Petitioners,

v.

Columbia Pictures Industries, Inc.,
Embassy Pictures,
Paramount Pictures Corporation,
Twentieth Century Fox Film Corporation,
Universal City Studios, Inc.,
Walt Disney Productions,
Warner Bros., Inc., and
CBS Inc.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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QUESTION PRESENTED

Whether the Ninth Circuit misconstrued the sham exception to the *Noerr-Pennington* doctrine by refusing to consider evidence that the lawsuit in question was not pursued with a genuine desire to obtain a favorable judgment, after it initially concluded that the lawsuit was not "baseless" as a matter of law?

PARTIES TO THE PROCEEDING

All of the parties to the proceeding below are set forth in the caption to the case. Pursuant to Rule 29.1 of the Rules of this Court, petitioners state that Professional Real Estate Investors, Inc. does not have any non-wholly owned subsidiaries, and has no parent corporation.

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AND
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COLUMBIA PICTURES INDUSTRIES, INC.,
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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Petitioners respectfully petition for a writ of certiorari to review the decision of the United States Court of Appeals for the Ninth Circuit which affirmed the decision of the United States District Court for the Central District of California that (1) granted summary judgment in favor of respondents on all of petitioners' antitrust counterclaims; and (2) dismissed petitioners' pendent state claims.

OPINIONS BELOW

The September 24, 1991 opinion of the United States Court of Appeals for the Ninth Circuit is reported at 944 F.2d 1525 and reproduced in Appendix ("App.") A, pp. 1a-19a. The Amended Summary Judgment of the district court, entered April 9, 1990, is not reported; it is reproduced in App. B, pp. 20a-22a. The Memorandum of Decision of the district court is reported at 1990-1 Trade Cas. (CCH) ¶ 68,971 (C.D. Cal. 1990) and reproduced in App. C, pp. 23a-25a.

The opinions of the Court of Appeals for the Ninth Circuit and the district court in the underlying copyright infringement action (which do not constitute a part of this appeal) are also reproduced for the convenience of the Court. The January 17, 1989 opinion of the Court of Appeals for the Ninth Circuit is reported at 866 F.2d 278 and reproduced in App. D, pp. 26a-37a. The Judgment entered by the district court on January 23, 1986 is not reported; it is reproduced in App. E, pp. 38a-39a. The Findings of Fact, Conclusions of Law, and Order of the district court are reported at 228 U.S.P.Q. (BNA) 743 (C.D. Cal. 1986) and reproduced in App. F, pp. 40a-50a.

JURISDICTION

The judgment of the Court of Appeals was entered on September 24, 1991. This Court has jurisdiction to review the judgment of the Court of Appeals by writ of certiorari pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2, are reproduced in App. G, p. 51a. Section 1 of the Cartwright Act, as codified at Cal. Bus. & Prof. Code §§ 16720, 16726 (West 1987), are reproduced in App. H, p. 52a-53a.

STATEMENT OF THE CASE

This case involves an early skirmish in the battle to provide video entertainment to travelers in the United

States. Today, of course, that battle is largely over, won by cable and satellite transmission services and the motion picture studios from which they obtain most of their entertainment programming. During the early 1980s, however, it was not at all clear which competitors, or even which technologies, would prevail. Many firms, offering recorded entertainment in a variety of formats, competed avidly for a place in the market. Petitioners, Kenneth F. Irwin and Professional Real Estate Investors, Inc. (collectively "PRE"), were among the earliest competitors.

Petitioners are the proprietors of La Mancha Private Club and Villas ("La Mancha"), a resort facility in Palm Springs, California. App. A, pp. 4a-5a. In 1981, PRE introduced what was, at the time, a highly innovative service in the nascent in-room video entertainment market. PRE installed individual videodisc players in each of its fifty guest villas, purchased a library of popular movies and other entertainments recorded on videodiscs, and invited its guests to rent the videodiscs and watch them in their villas. App. A, p. 29a.

In the fall of 1982, respondents (eight major motion picture studios ("the Studios")) sent PRE a letter protesting that PRE's videodisc rental service infringed the Studios' copyrights in the movies recorded on the videodiscs. App. F, p. 44a. The Studios warned that they would take legal action if PRE did not discontinue its innovative service. PRE contended that its service was entirely lawful under the copyright laws.

On April 25, 1983, the Studios made good on their threats, filing a copyright infringement lawsuit against PRE. App. A, p. 4a; App. F, p. 44a. The crux of the Studios' complaint was that PRE's videodisc rental service gave rise to unlawful public performances of the Studios' copyrighted movies. App. F, p. 40a. PRE denied any wrongdoing and counterclaimed that by colluding to undermine PRE's innovative and popular service, the Studios had violated Sections 1 and 2 of the Sherman Act and a number of state antitrust and unfair competition laws.

¶¶ 34, 39, 45, Answer and Counterclaims of Petitioners, Ex. F to the Record on Appeal to the Ninth Circuit, pp. 29-32 (*see also* App. A., p. 5a).[1]

From the outset of its litigation with the Studios, PRE was stymied in pursuing its antitrust counterclaims. Simply put, the Studios adopted a policy of refusing to respond to PRE's basic discovery requests. The Studios' intransigence ultimately gave rise to PRE's First Motion to Compel Discovery. Shortly thereafter, PRE and the Studios filed cross-motions for summary judgment on the Studios' copyright infringement claim. When it received the cross-motions, the district court directed the parties to "postpone[ ] further discovery on the antitrust counterclaims pending resolution of the cross-motions." App. A, p. 5a.

In January 1986, the court granted PRE's motion for summary judgment on the copyright infringement claim and denied the Studios' motion. It concluded that PRE's rental of videodiscs to guests at La Mancha did not infringe the Studios' copyrights. The court held that the videodisc rental service did not give rise to copyright infringement because the viewing of videos in the guest villas at La Mancha was not a public performance. App. F, p. 48a. The Studios appealed this decision to the Ninth Circuit Court of Appeals.

After it prevailed in the copyright infringement action, PRE resumed pursuit of its antitrust counterclaims. PRE reiterated its requests for production of relevant documents, but once again the Studios refused to respond. PRE filed a Second Motion to Compel Discovery, App. A, p. 5a, but the district court stayed further discovery on PRE's antitrust counterclaims, reasoning that "the result of the appeal might affect the scope of discovery" required in the antitrust action. App. A, p. 6a.

[1] PRE's pendent claims under California's antitrust law, the Cartwright Act, were dismissed by the District Court for lack of subject matter jurisdiction following dismissal of the Sherman Act claims. App. B, p. 21a. That dismissal was affirmed by the Ninth Circuit. App. A, p. 19a.

The Studios' appeal was delayed several times by changes in the composition of the Ninth Circuit panel. Three years after the appeal was filed, the Ninth Circuit affirmed the district court's decision to grant PRE's motion for summary judgment on the Studios' copyright infringement claim. App. D, p. 26a. Following the Ninth Circuit's decision, the district court's stay of discovery was lifted and PRE *once again* resumed pursuit of its antitrust counterclaims. The Studios eventually produced a ludicrously small number of documents *after* a discovery deadline agreed upon by all of the litigants had passed.

Shortly after their niggardly document production, the Studios moved for summary judgment on PRE's antitrust counterclaims. PRE opposed this motion, arguing that it had not yet received discovery relevant to its claims. Nonetheless, the district court refused to resolve pending motions to compel and granted the Studios' motion on March 1, 1990. Apps. B, C. It reasoned that the Studios were immune from antitrust liability under the *Noerr-Pennington* doctrine because the Studios' copyright lawsuit was not a sham. The court emphasized that:

> It was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the court of appeals had trouble with it as well. I find that there was probable cause for bringing the action. . .

App. B, p. 24a.

PRE appealed, arguing that summary judgment in favor of the Studios on the antitrust counterclaims was inappropriate for three reasons. First, the court failed to permit PRE to take full discovery from the Studios after the stay of discovery was lifted. Second, the court failed to consider any of PRE's other allegations of anticompetitive conduct other than the evidence relating to the Studios'

lawsuit. Finally, the court mistakenly concluded that the Studio's lawsuit was not a sham. App. A, p. 7a.

The Ninth Circuit found no error in the district court's decision to grant the Studios' summary judgment motion on PRE's antitrust counterclaims. Specifically, the court found that the district court had applied the *Noerr-Pennington* doctrine properly.

The Ninth Circuit began its decision by stating that the Supreme Court "has identified two types of sham activity: 'misrepresentations . . . in the adjudicatory process' and the pursuit of 'a pattern of baseless, repetitive claims.' " App. A, p. 11a (*citing California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972)). The court noted that PRE had not alleged that the Studios' copyright lawsuit involved misrepresentations or baseless claims. Rather, the court stated:

> PRE argues that the copyright infringement lawsuit is a sham because [the Studios] did not honestly believe that the infringement claim was meritorious. According to PRE, [the Studios'] subjective intent in bringing the suit was a question of fact precluding entry of summary judgment.

App. A, p. 11a.

The court then stated that it has adopted a strictly objective threshold test: in order to be a sham, a lawsuit must be *baseless* as a matter of law (specifically rejecting the holding in *In re Burlington Northern, Inc.*, 783 F.2d 518, 529 (5th Cir. 1987), *cert. denied*, 484 U.S. 1007 (1988)). *Id.* Accordingly, the Ninth Circuit concluded that the district court did not err in holding that the Studios' copyright infringement lawsuit was not a sham because it found that the suit "was brought with probable cause and presented issues that were difficult to resolve," *i.e.*, that the suit was not baseless. App. A, p. 15a.

The Court of Appeals then offered the following synopsis of its method of reviewing *Noerr-Pennington* sham exception allegations:

> [A]n antitrust plaintiff must make a two-part showing to support a finding of sham: (1) that the suit is baseless—a legal question. . . *and* (2) that the suit was brought as part of an anticompetitive plan external to the underlying litigation—a question of fact. . . . [Therefore,] a suit brought with probable cause does not fall within the sham exception to the *Noerr-Pennington* doctrine.

App. A, pp. 15a-16a (emphasis added) (citations omitted).

Having found that the district court did not err in concluding that the Studios' copyright lawsuit was not baseless (and therefore not within the sham exception to *Noerr-Pennington*), the Court of Appeals summarily disposed of PRE's contention that the district court erroneously granted summary judgment to the Studios before it ruled on PRE's request to be permitted to take full discovery. The court acknowledged that "summary judgment is rarely granted in antitrust cases before discovery is completed," but concluded that intent is relevant in sham cases only after the antitrust plaintiff has shown that the lawsuit in question was baseless as a matter of law. App. A, p. 17a. Because PRE did not show that the Studios' copyright litigation was baseless as a matter of law, the Ninth Circuit determined that the district court did not err when it concluded that additional discovery could not assist PRE in its attempt to demonstrate that the copyright lawsuit was a sham. App. A, pp. 17a-18a.

REASONS FOR GRANTING THE PETITION

SUMMARY OF ARGUMENT

The Ninth Circuit has adopted a two-prong standard for determining sham litigation that (1) is sharply at odds with the standards employed by every other circuit, (2) misconstrues this Court's teachings on the *Noerr-Pennington* doctrine and its sham exception, and (3) is at war with the very basis and purpose of the sham exception. By holding that *no* evidence as to the disingenuousness and insubstantiality of a litigant's desire for the judicial relief

ostensibly sought in a litigation is relevant to a determination of whether the litigation is an anticompetitive sham when the litigation in question is not deemed "baseless" as a matter of law, the Ninth Circuit has established a standard that permits, indeed authorizes, the intentional misuse of the judicial system for anticompetitive ends. Review of the Ninth Circuit's decision is necessary to (1) correct the Ninth Circuit's clear error; and (2) provide uniformity among the circuits in the application of this important doctrine.

I. The Ninth Circuit Has Ignored This Court's Teaching That A Genuine Intent To Obtain Judicial Relief Is The Basis For Determining Whether The Litigation Is A Sham.

The court has provided ample guidance as to the limits of the *Noerr-Pennington* doctrine in the context of sham litigation, guidance the District Court and Ninth Circuit failed to follow in this case. In the thirty years following this Court's decision in *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), this Court has carefully distinguished between two forms of intent in determining whether concerted governmental petitioning, otherwise immune from liability under the antitrust laws, is in fact a sham, and therefore not entitled to immunity.[2] These careful distinctions lie at the heart of this Court's *Noerr-Pennington* jurisprudence.

[2] This immunity from the antitrust laws is conferred through the *Noerr-Pennington* doctrine, a doctrine derived from this Court's decisions in *Noerr* and *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965). The doctrine provides that "the federal antitrust laws . . . do not regulate the conduct of private individuals in seeking anticompetitive action from the government . . . '*Noerr* shields from the Sherman Act a concerted effort to influence public officials regardless of intent or purpose.' " *Columbia v. Omni Outdoor Advertising, Inc.*, 111 S.Ct. 1344, 1354 (1991) (*quoting Pennington*, 381 U.S. at 670). The *Noerr-Pennington* doctrine was first explicitly extended to include concerted efforts to litigate in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972).

While a sham exception to the *Noerr-Pennington* doctrine was implicitly recognized in *Noerr*, 365 U.S. at 144, not until *California Motor Transport*, 404 U.S. at 516, did the Court first find conduct which it deemed to be sham.

The Court has distinguished between the intent to cause competitive harm *directly*, by imposing the burdens that follow from invoking a governmental process; and the intent to cause harm *indirectly*, through the tangible results (*e.g.*, legislation, rule changes, or court judgments) of the governmental process(es) invoked. *Noerr* and *Pennington* hold that an intent to solicit governmental action with the principal purpose of having that action harm a competitor - having a "bad intent" in the latter sense - is the very essence of the conduct to be protected from application of the antitrust laws.[3] "Without a doubt, the intention to harm a competitor is *not* sufficient to make litigation . . . a sham. That anticompetitive motive is the very matter protected under *Noerr-Pennington*." *Winterland Concessions Co. v. Trela*, 735 F.2d 257, 263 (7th Cir. 1984) (*quoting Gainesville v. Florida Power & Light Co.*, 488 F. Supp. 1258, 1265-66 (S.D. Fla. 1980)) (emphasis in latter).[4]

On the other hand, *Pennington*, *California Motor Transport*, and numerous more recent cases recognize that conduct that does not involve a genuine desire for governmental results, but instead seeks to use (and thereby abuse) governmental processes as the means of working competitive injury directly, does not enjoy *Noerr-Pennington* antitrust immunity. It is only petitioning activity motivated by an evil intent in this sense that is proscribed

[3] *See Noerr*, 365 U.S. at 138-40 ("The right of the people to [petition the] . . . government . . . cannot properly be made to depend upon their intent in doing so. It is neither unusual nor illegal for people to seek action on laws in the hope that they may bring about an advantage to themselves and a disadvantage to their competitors."); *Pennington*, 381 U.S. at 670 ("*Noerr* shields from the Sherman Act a concerted effort to influence public officials regardless of intent or purpose.").

[4] *See also MCI Communications Corp. v. Am. Tel. & Tel. Co.*, 708 F.2d 1081, 1156 (7th Cir.), *cert. denied*, 464 U.S. 891 (1983), which also quotes from *Gainesville*, citing it as "[o]ne of the more cogent definitions of sham litigation . . .," *id.*; *Westmac, Inc. v. Smith*, 797 F.2d 313, 317 (6th Cir. 1986), *cert. denied*, 479 U.S. 1035 (1987).

as sham conduct. "A 'sham' situation involves a defendant whose activities are 'not genuinely aimed at procuring favorable government action' at all. . . ." *Omni Outdoor*, 111 S.Ct. at 1354 (*quoting Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 n.4 (1988)).[5]

These distinctions, and the fact that only an intent to cause harm directly is actionable conduct, flow logically from the core purpose of the *Noerr-Pennington* doctrine. As the Court wrote in *California Motor Transport*, the holdings in *Noerr* and *Pennington* derived both from a determination that (1) the Sherman Act was intended to regulate business, rather than political, activity; and (2) the Congress would not lightly circumscribe the First Amendment right to petition government without explicitly stating its intention to do so. *See Noerr*, 365 U.S. at 137-38; *Pennington*, 381 U.S. at 669-71; *California Motor Transport*, 404 U.S. at 510. A party wishing to inflict competitive harm through the genuinely-desired outcome of a governmental process does not itself inflict competitive harm; rather, the state does, and the antitrust laws have only a limited role to play in proscribing anticompetitive measures fashioned by the government. *See, e.g.*, *Parker v. Brown*, 317 U.S. 341 (1943). Moreover, "[t]he first amendment, as expressed in the *Noerr-Pennington* doctrine, protects even strongly expressed anticompetitive sentiments." *Westmac*, 797 F.2d at 313.

On the other hand, parties that seek directly to harm their competitor through use of the governmental process itself, rather than as a result of a governmental outcome,

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[5] *See also California Motor Transport*, 404 U.S. at 511-12; *In re Burlington Northern, Inc.*, 822 F.2d 518, 527 (5th Cir. 1987), *cert. denied*, 484 U.S. 1007 (1988):

> If the . . . intent [of the defendant in the antitrust action] was not to influence the government and obtain relief, but rather to harm a competitor through the mere invocation and maintenance of the process, he is not entitled to protection because he is not exercising the right of petition that formed the basis for the decision in *Noerr*.

trigger none of the factors underlying *Noerr-Pennington* immunity. Under these circumstances, the petitioning parties have not sought genuinely to engage the machinery of government, which is the freedom protected by the First Amendment. Moreover, the anticompetitive result flows directly from the harm that the parties create through the abuse of governmental machinery, rather than indirectly from the governmental outcome. Hence, there is no reason for the antitrust laws to defer to a sovereign act of the government, because there is no governmental "act" to which to defer.

Relying on these distinctions, the Court has steadily assembled a body of law that recognizes the primacy of intent in a determination of sham. In *California Motor Transport*, the Court qualified its statement in *Pennington* that *Noerr* shields behavior regardless of intent or purpose, noting:

> The nature of the views pressed does not, of course, determine whether First Amendment rights may be invoked; but they may bear upon a purpose to deprive the competitors of meaningful access to the agencies and courts. As stated in the opinion concurring in the judgment, such a purpose or intent, if shown, would be "to discourage and ultimately to prevent the respondents from invoking" the processes of the administrative agencies and courts and thus fall within the exception to *Noerr*.

California Motor Transport, 404 U.S. at 512 (*quoting id.* at 518 (Stewart and Brennan, JJ., concurring)).[6]

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[6] In full, the portion of the concurrence quoted with approval by the Court states:

> Under these allegations [as set forth in the complaint], . . . the respondents are entitled to prove that the real *intent* of the conspirators was not to invoke the processes of the administrative agencies and courts, but to discourage and ultimately to prevent the respondents from invoking these

In *Indian Head*, the Court further highlighted the central role of intent in sham determination by criticizing a Ninth Circuit decision holding "that the sham exception covers the activity of a defendant who 'genuinely seeks to achieve his governmental result, but does so *through improper means*.'" *Indian Head*, 486 U.S. at 508 n.10 (1988) (*quoting Sessions Tank Liners, Inc. v. Joor Mfg. Inc.*, 827 F.2d 458, 465 n.5 (9th Cir. 1987), *vacated*, 487 U.S. 1213 (1988)) (emphasis in latter). "Such a use of the word 'sham' distorts its meaning and bears little relation to the sham exception *Noerr* described to cover activity that was not genuinely intended to influence governmental action." *Indian Head*, 486 U.S. at 508 n.10.[7]

And in its latest case on this subject, *Omni Outdoor*, the Court once again highlighted the use/abuse dichotomy as the core inquiry in a sham determination.

> The "sham" exception to *Noerr* encompasses situations in which persons use the governmental *process* - as opposed to the *outcome* of that process - as an anticompetitive weapon. A classic example is the filing of frivolous objections to the

> processes. Such an intent would make the conspiracy "an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified."

Id. (*quoting Noerr*, 365 U.S. at 144) (emphasis in former).

[7] Commentators have embraced *Indian Head* as offering "salutary lesson[s]" on the scope and meaning of the sham exception. Stephen Calkins, *Developments in Antitrust and the First Amendment: the Disaggregation of Noerr*, 57 Antitrust L.J. 327, 340 (1988).

> [*Indian Head*] offered hope for resolution of some of the inconsistencies that have plagued the [*Noerr-Pennington*] doctrine. It did this by distinguishing sharply between harm caused directly by petitioning activity (for which petitioners may be liable), and harm caused by requested government action (for which petitioners may not), and by recasting the "sham exception" as being narrower and less important than some courts had held.

Id. at 327-28.

> license application of a competitor, with no expectation of achieving denial of the license but simply in order to impose expense and delay.
>
> * * * *
>
> [T]he purpose of delaying a competitor's entry into the market does not render lobbying activity a "sham," unless . . . the delay is sought to be achieved only by the lobbying process itself, and not by the governmental action that the lobbying seeks.

Omni Outdoor, 111 S.Ct. at 1354 (emphasis in original) (citation omitted).

A. The Ninth Circuit Misconstrued *Bill Johnson's Restaurants, Inc. v. N.L.R.B.* In Support Of Its Holding.

The Ninth Circuit made only passing reference to *California Motor Transport*, and completely ignored *Indian Head* and *Omni Outdoor*. Instead, it relied solely on *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731 (1983) to support its contention that "the Supreme Court's pronouncements on the sham exception support our conclusion." App. A., p. 16a. The Ninth Circuit gravely misconstrued this Court's teaching in *Bill Johnson's*, extracting a rule that is irreconcilable with the proper application to antitrust of the *Noerr-Pennington* doctrine and its sham exception.

In *Bill Johnson's*, this Court considered under what circumstances a lawsuit filed by an employer in state court against a striking employee could be deemed an "unfair labor practice" within the meaning of Sections 8(a)(1) and (4) of the National Labor Relations Act ("NLRA"), 29 U.S.C. §§ 158(a)(1) and (4), and thus be proscribed by the National Labor Relations Board ("NLRB"). The Court balanced the need under the labor laws to ensure that em-

ployees can exercise their rights under the NLRA free from employer harassment, with the employer's First Amendment right of access to the courts and the "compelling interest [of the states] in the maintenance of domestic peace" through providing a civil remedy to protect employers from tortious conduct occurring during labor disputes. *Bill Johnson's*, 461 U.S. at 740-43. The Court held that the NLRB could enjoin only those suits that were baseless and that were intended by the litigant to retaliate against an employee for the exercise of his NLRA-protected rights. *Id.* at 744.

A measure of the Ninth Circuit's error and isolation on this point is that since 1983, *Bill Johnson's* has never been cited by any court in support of the proposition that a finding of sham in the antitrust context requires a threshold finding of baselessness as a matter of law.[8] Simply put, *Bill Johnson's* cannot be imported wholesale into an antitrust setting to define and sharply limit the ambit of the sham exception, as the Ninth Circuit does uncritically.[9] The fact that the case represents an interpretation of the labor laws, and not (at least directly) a constitutional interpretation is crucial to an understanding of the limits of the Court's analysis.[10] The labor laws are predisposed to

[8] *Cf. South Dakota v. Kansas City Southern Indus., Inc.*, 880 F.2d 40, 54 (8th Cir. 1989), *cert. denied*, 493 U.S. 1023 (1990) (*Noerr-Pennington* and sham concepts used in the interpretation of state law of tortious interference with contractual relations; *Bill Johnson's* cited in support of the proposition that successful litigation precludes a finding of sham based on lack of reasonable basis for the lawsuit).

[9] *See Burlington Northern*, 822 F.2d at 528-29 n.7. Antitrust commentators have noted the narrow utility of the *Bill Johnson's* holding to antitrust law. *See, e.g.*, Calkins, *supra* n.7 at 363-65; James D. Hurwitz, *Abuse of Governmental Processes, the First Amendment, and the Boundaries of Noerr*, 74 Geo. L.J. 65, 103-05 (1985).

[10] Indeed, Justice Brennan, in a concurring opinion, emphasized the limited scope which should properly be accorded the Court's holding:

> [These] . . . standards . . . take their content from the basic structures of federal and state - and of administrative and judicial - authority over labor disputes, and they should not

halt all employer lawsuits motivated by a vindictive or retaliatory spirit in order to ensure maximum scope for the exercise of employee rights guaranteed by the NLRA through access to the NLRB. *Noerr* and *Pennington*, on the other hand, stand for the opposite proposition. They state that an anticompetitive motive - the desire to injure one's competitors by obtaining a governmental result - is of no importance in a sham determination. Standing alone, a desire to injure competitors is not sufficiently threatening to the policy goals of the antitrust laws to warrant proscription. In the marketplace, litigation that genuinely seeks even an admittedly competition-reducing, governmentally sanctioned result is but one additional arrow in the competitor's quiver.

Arrayed against the predisposition of the labor laws are both the First Amendment interest of employers in having free access to courts, and powerful considerations of federalism, embodied in state tort laws to which employers have historically turned during labor disputes.[11] Balancing

> be read in an artificial way that ignores their provenance.

Bill Johnson's, 461 U.S. at 750 (Brennan, J., concurring). *See also Burlington Northern*, 822 F.2d at 528-29 n.7:

> The [*Bill Johnson's*] Court did not . . . state a constitutional rule that all lawsuits with a reasonable basis are immune from the application of otherwise valid regulation. Rather, it construed congressional intent behind the NLRA in light of the constitutional right to petition and earlier Supreme Court cases that held that the NLRA does not preempt states from providing a civil remedy for tortious conduct occurring during a labor dispute. . . . Given the constitutional implications and the lack of preemption, the Court concluded that the NLRA does not empower the Board to enjoin lawsuits solely on the basis of retaliatory motive.

(citation omitted).

[11] The importance of these federalism considerations to the result reached in *Bill Johnson's* cannot be overstated. *See Sure-Tan, Inc. v. NLRB*, 467 U.S. 883, 897-98 (1984), in which the Court cited a lack of federalism concerns arising from the activity deemed to be an "unfair labor practice" in support of its decision not to apply the rationale of

these competing interests, the Court determined that, at least as a threshold matter, the policies embodied in the labor laws must defer to first amendment and federalism concerns in all but the narrowest of circumstances: those where an employer's state lawsuit lacks a genuine basis in fact or law. As the *Burlington Northern* court noted, the NLRA had been deemed not to preempt the state tort remedies, so a greater accommodation was necessary to these state interests. *Burlington Northern*, 822 F.2d at 529 n.7.

By comparison, competition policy, as embodied in the antitrust laws, enjoys an almost quasi-constitutional stature, far exceeding that of the NLRA.[12] There is simply no reason why the antitrust laws must defer as completely as the NLRA. First, the antitrust laws are concerned with distinguishing public from private harm when that harm is achieved through use of governmental processes. They do not address when retaliatory litigation, otherwise proscribed, must be permitted to flourish because of competing and overriding concerns. The First Amendment does not protect those who invoke a governmental process without a legitimate purpose to petition their government, but simply to bludgeon a competitor. In these situations, "there are no 'grievances' to redress."[13] Moreover, in the antitrust context, the Court is unburdened by federalism, and seeks only to protect those lawsuits in which the governmental machinery is genuinely engaged in order to obtain a favorable result, regardless of the competitive consequences of that result.

Bill Johnson's. See also Calkins, *supra* n.7 at 364 and n.187; Hurwitz, *supra* n.9 at 103 and n.172.

[12] *See, e.g., National Collegiate Athletic Ass'n v. Board of Regents*, 468 U.S. 85, 104 n.27 (1984); *United States v. Topco Assoc., Inc.*, 405 U.S. 596, 610 (1972); *Appalachian Coals, Inc. v.* United States, 288 U.S. 344, 359-60 (1933). *See also* Hurwitz, *supra* n.9 at 119-121.

[13] Daniel R. Fischel, *Antitrust Liability for Attempts to Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine*, 45 U. Chi. L. Rev. 80, 101 (1977).

Finally, as the *Burlington Northern* court pointed out, *Bill Johnson's* did not "consider the situation in which the litigant, in addition to having a motive generally proscribed by the regulation at issue, also has no significant desire to obtain the relief prayed for." *Burlington Northern*, 822 F.2d at 528-29 n.7. These considerations have been dealt with extensively in antitrust sham jurisprudence (most recently in *Omni Outdoor*). It would be illogical in the extreme to read *Bill Johnson's* to limit a well-developed body of pertinent antitrust law, simply because the Court stated that "[c]onsiderations analogous" to those in the antitrust context guided the Court in its interpretation of the NLRA. *Bill Johnson's*, 461 U.S. at 744.

No court of appeals has gone as far as the Ninth Circuit in rejecting this Court's teachings on the primacy of intent (properly considered) in determining sham. By creating a two-pronged standard that requires a finding of baselessness before the trier of fact may consider *any* evidence of a litigant's motivation, the Ninth Circuit has immunized from potential antitrust liability all sorts of conduct in the courts that is entirely undeserving of either First Amendment protection or exemption from the antitrust laws. Immune from challenge under the Ninth Circuit standard, for example, is a lawsuit which presents any colorable claim, no matter how that lawsuit is pursued. So long as the complaint presents a genuine claim, this standard opens wide the door to those who wish to employ sharp litigation tactics in pursuit of admittedly anticompetitive ends, not to secure a result but simply to burden, harass and perhaps even destroy a competitor.

Indeed, the Ninth Circuit standard equates, for purposes of the sham exception, successful prosecution of a meritorious lawsuit with prosecution of a single lawsuit brought with the most tenuous probable cause only to harass or intimidate a competitor, and regardless of outcome. App. A, pp. 13a-14a. For the Ninth Circuit, a successful lawsuit irrebuttably precludes a finding of sham; so, too, does an

unsuccessful lawsuit which is just short of being subject to sanction under Rule 11 of the Federal Rules of Civil Procedure. Such a standard makes no sense.

It is apparent that the Ninth Circuit has confused (or completely ignored) the distinctions this Court has drawn between intent to do competitive harm *directly* and intent to do harm *indirectly,* through a genuinely motivated engagement of governmental machinery. The court's confusion (or the failure to recognize the distinction) infects the court's ability to deal properly with the core question of respondents' intent and motivation in the underlying copyright infringement litigation. In ruling on petitioners' contention that the district court failed to resolve its requests for discovery before ruling on the motion for summary judgment, the Ninth Circuit stated that the district court concluded that "even if the Movie Studios had an anticompetitive intent in bringing the action, they did not lose their *Noerr-Pennington* immunity." App. A, pp. 17a-18a. Put this way, of course, petitioner's arguments are easily dismissed, because it appears as though petitioners are seeking to secure evidence that simply showed that respondents were animated by a desire to inflict harm on their competitors through litigation. Rather, petitioners sought - and were denied at every turn - evidence that would have revealed the disingenuousness of respondents' motivation in *initiating and prosecuting* their unsuccessful action against petitioner, among other evidence of the Studios' conspiracy to restrain competition.[14]

II. The Ninth Circuit's Standard For Analyzing Sham Allegations Is Inconsistent With The Standards Of Every Other Circuits.

In the nineteen years since this Court decided *California Motor Transport,* lower courts have wrestled with the question of the proper standard by which to distinguish

[14] The same error pervades Judge Jolly's reading of *Bill Johnson's* in his concurrence to *Burlington Northern,* 822 F.2d at 535.

genuine petitioning activity from sham.[15] Much of the difficulty surrounding the proper application of the sham exception springs from confusion regarding the type of "intent" that is relevant in *Noerr-Pennington* analysis (*see supra*), and the way in which questions of "intent" (properly defined) are to be considered in determining sham.[16]

The standards of the circuit courts on these issues vary widely. They are arrayed along a spectrum according to the role which motive and intent play in determining sham. The Ninth Circuit's standard stands at one extreme end of this spectrum. It requires a court to completely reject any evidence of intent, and limit its analysis solely to the objective merits of the underlying suit. The decisions of the Fifth[17], Sixth[18], and Seventh[19] Circuits stand at the

[15] *See, e.g., Westmac,* 797 F.2d at 320 (Merritt, J., dissenting) ("Since [*Noerr*]. . ., the federal courts have struggled to give specific meaning to the *Noerr-Pennington* doctrine's sham exception. *We need a definition of the sham exception that is clear and analytically sound as well as functional.*") (emphasis supplied); *Coastal States Marketing, Inc. v. Hunt,* 694 F.2d 1358, 1371 (5th Cir. 1983) ("The Supreme Court has never defined with precision the standard for determining when litigation is a sham."); *MCI Communications,* 708 F.2d at 1155 ("The *Noerr* and *Pennington* cases themselves provide little definition of what a 'sham' may be other than to indicate immunity for 'genuine efforts' and 'good faith' attempts to influence governmental bodies."); Calkins, *supra* n.7 at 327 ("A legal doctrine conceived in ambiguity seldom achieves clarity with the passage of time. Such had been the experience with the *Noerr-Pennington* doctrine. . .") (footnote omitted); Michael W. Bien, *Litigation as an Antitrust Violation: Conflict Between the First Amendment and the Sherman Act,* 16 U.S.F. L. Rev. 41, 68 (1981); Fischel, *supra* n.13, at 104.

[16] *See, e.g.,* Hurwitz, *supra* n.9 at 94 ("The legal elements of a sham, however, are themselves unclear. Courts, and especially the Supreme Court, have failed to distinguish between what is required, what is illustrative, and what is merely probative.") (footnote omitted).

[17] *See, e.g., Burlington Northern; Coastal States.*

[18] *See, e.g., Westmac.*

[19] *See, e.g., Premier Electrical Constr. Co. v. Nat'l Electrical Contractors Ass'n,* 814 F.2d 358 (7th Cir. 1987); *Winterland; MCI Communications; Grip-Pak, Inc. v. Illinois Tool Works, Inc.,* 694 F.2d 466 (7th Cir. 1982), *cert. denied,* 461 U.S. 958 (1983); *G. Heileman Brewing*

opposite extreme. The Fifth, Sixth and Seventh Circuits have thoroughly considered these issues, and have crafted rules which balance various objective criteria, in some cases raising rebuttable presumptions based upon particularly strong criteria, in all cases endeavoring to gauge motivation and intent. In no event do these courts foreclose inquiry in the manner the Ninth Circuit has. Scattered somewhere between these polar opposites are the rules crafted by the Second[20], Third[21], Fourth[22], Eighth[23], Tenth[24],

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Co., Inc. v. Anheuser-Busch Inc., 676 F. Supp. 1436, 1475-77 (E.D. Wis. 1987), *aff'd*, 873 F.2d 985 (7th Cir. 1989).

[20] *See, e.g., Juster Assoc. v. Rutland*, 901 F.2d 266, 271 (2d Cir. 1990) (*Noerr* immunity available only to colorable claims which are within the jurisdiction of the tribunal. "Where administrative or judicial processes are invoked for the purpose of causing collateral effects such as delaying entry by competitors . . ., the *Noerr-Pennington* immunity is not available."); *Litton Systems, Inc. v. Am. Tel. & Tel. Co.*, 700 F.2d 785, 810-12 (2d Cir. 1983), *cert. denied*, 464 U.S. 1073 (1984):

> Professor Areeda's view of the heart of the sham exception - invoking the process of administrative or adjudicatory decisionmaking for the injury that the process alone will work upon competitors - possesses the virtue of accommodating the Supreme Court's concern in *California Motor Transport* that these processes not be abused with impunity behind claims of *Noerr-Pennington* immunity.

Id. at 810. (The court cited and evaluated various indicia "of whether a defendant could have reasonably expected its position to prevail, and therefore whether the invocation of process was actually an attempt to influence a decision rather than an attempt to interpose delay." *Id.* One of the indicia was AT&T's half-hearted participation in an Advisory Committee devising standards for equipment interface with the AT&T network, with AT&T doing "what it could to delay and obfuscate the efforts undertaken by the FCC and other interested parties to develop certification standards." *Id.* at 811.)

[21] *See, e.g., Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984).

[22] *See, e.g., Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556 (4th Cir. 1990), *cert. denied*, 111 S.Ct. 1414 (1991); *Hosp. Bldg. Co. v. Trustees of Rex Hosp.*, 791 F.2d 288, 293 (4th Cir. 1986) (Rejecting an objection to certain jury instructions regarding sham and intent, which "explain[ed] that actions taken 'without a genuine intent to influence the decision of the agency or the court' are a sham," the

Eleventh[25], and District of Columbia[26] Circuits, with all but the Fourth and possibly the Tenth clustered close to the pole defined by the Fifth, Sixth and Seventh Circuits.

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court stated:

> Read in the context of the entire charge, the phrase "genuine intent" meant a sincere intent without pretense. Justice Stewart expressed the same concept by saying that antitrust complainants "are entitled to prove that the real *intent* of the conspirators was not to invoke the processes of the administrative agencies and courts . . ."

Id. (*quoting California Motor Transport*, 404 U.S. at 518 (Stewart, J., concurring) (emphasis in latter))).

[23] Perhaps no circuit court's decisions better illustrate the enormous confusion generated by the sham doctrine than do those of the Eighth Circuit. *Compare, e.g., Kansas City Southern*, 880 F.2d at 50-54; *Razorback Ready Mix Concrete Co., Inc. v. Weaver*, 761 F.2d 484, 487 (8th Cir. 1985) (While stating that "the key to the 'sham exception' is an improper interference with governmental processes," the court held that "the institution of a single lawsuit and a related appeal . . . does not give rise to a cause of action under the antitrust laws absent allegations that the lawsuit involves serious misconduct similar to the access-barring abuses described in *California Motor*."); *First Am. Title Co. of South Dakota v. South Dakota Land Title Ass'n*, 714 F.2d 1439, 1447-48 (8th Cir. 1983), *cert. denied*, 464 U.S. 1042 (1984) (Court stressed genuineness of disputes on the part of defendants.); *Mark Aero, Inc. v. Trans World Airlines, Inc.*, 580 F.2d 288, 293-97 (8th Cir. 1978) (After reviewing *Noerr*, *Pennington*, and *California Motor Transport*, the Court stated the law of sham as follows:

> The fundamental question presented in each case involving the "sham" exception . . . is the question of intent. . . . [I]n the adjudicative setting the question can become more complex. As always in deciding questions of intent, the court considers all of the surrounding circumstances and assigns to each circumstance an appropriate weight, dependent upon the function and significance of each. . . . The distillation of all of the applicable factors in each case governs the decision as to true intent, whether it is to directly injure competitors rather than to influence governmental action.

Id. at 297.)

[24] *See, e.g., Hydro-Tech Corp. v. Sunstrand Corp.*, 673 F.2d 1171, 1177 (10th Cir. 1982) ("A *sham* action is one which tends to be abusive

At bottom, the Ninth Circuit standard states that the genuineness of a litigant's motives in seeking its anticompetitive objectives through a judgment on the merits becomes relevant only after a threshold determination by the court that, as a matter of law, the litigation is baseless. App. A, p. 16a.[27] The Ninth Circuit seeks to short-cut the inquiry mandated by this Court by erecting, as an irrebuttable presumption against a finding of sham, one criterion - baselessness - that screens out only the most blatant abuses of the judicial process. While courts[28] and commentators[29] recognize that inquiries into issues of subjective intent and motivation may not be easy, these questions are no thornier than other intent-based inquiries in antitrust. *See, e.g., Grip-Pak*, 694 F.2d at 472. Other courts have grappled with these issues and devised practicable standards which, unlike that devised by the Ninth Circuit, are consistent with this Court's teachings. *See, e.g., Burlington Northern*, 822 F.2d at 534; *Westmac*, 797 F.2d at 318. Simply put, the Ninth Circuit has erred by shortcutting the inquiry which this Court mandates.

The Fifth Circuit, in *Burlington Northern* and *Coastal States*, stands in sharpest contrast to the Ninth Circuit standard. The polestar of the Fifth Circuit sham inquiry is the genuineness of the litigant's motivation in seeking a result from a governmental process. The inquiry eschews formalistic linedrawing in its search for indicia of genuineness, relying instead on a variety of factors (including success or failure in the underlying litigation) as guideposts.

> *Coastal States* recognized that the key to extending *Noerr-Pennington* protection is whether the antitrust defendant genuinely was attempting to influence governmental decisionmaking. If the defendant's intent was not to influence the government and obtain relief, but rather to harm a competitor through the mere invocation and maintenance of the process, he is not entitled to protection because he is not exercising the right of petition that formed the basis for the decision in *Noerr*. . . .
>
> [*Coastal States*] focuses attention on the factors motivating the *initiation* and *prosecution* of the suit. Thus, it is not dispositive that the ultimate relief will be beneficial to the petitioner and will serve his purposes. It must be shown that the desire for relief was a significant factor underlying the actual bringing and prosecution of the suit. This requires an examination of the litigant's intent.

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of the judicial processes and, therefore, is something more than an action instituted without probable cause.") (emphasis in original).

[25] *See, e.g., St. Joseph's Hosp., Inc. v. Hosp. Corp. of Am.*, 795 F.2d 948 (11th Cir. 1986); *Collins & Aikman Corp. v. Stratton Indus., Inc.*, 728 F. Supp. 1570, 1580 (N.D. Ga. 1989) ("The requisite motive for establishing a sham exception is the intent to harm one's competitor not by the result of the litigation but 'by the simple fact of the institution of the litigation.' . . . Thus, the touchstone of the sham exception is whether 'the desire for relief was a significant factor underlying the actual bringing and prosecution of the suit.' ") (*quoting respectively MCI Communications*, 708 F.2d at 1156, *and Burlington Northern*, 822 F.2d at 528).

[26] *See, e.g., Fed. Prescription Service, Inc. v. Am. Pharmaceutical Ass'n*, 663 F.2d 253 (D.C. Cir. 1981), *cert. denied*, 455 U.S. 928 (1982).

[27] Indeed, the issue is framed even more sharply in this case. Here, petitioners were completely foreclosed from any discovery relating to respondents' motives in pursuing an unsuccessful copyright infringement action.

[28] *See, e.g., Burlington Northern*, 822 F.2d at 528:

> To be sure, "[d]etermining what efforts are not bona fide petitions to the government . . . is a difficult task." . . . . But we cannot say that important cases will not exist in which the evidence establishes that, despite having a meritorious claim, a party was motivated not by a desire to obtain relief but to harass and interfere with the activities of a competitor through the process itself.

(*quoting Greenwood Utilities Comm'n v. Mississippi Power Co.*, 751 F.2d 1484, 1498 (5th Cir. 1985)); *Grip-Pak*, 694 F.2d at 472.

[29] *See, e.g.*, Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 203.1c at pp. 23-24 (Supp. 1991); Hurwitz, *supra* n.9 at 99.

Burlington Northern, 822 F.2d at 527-28 (emphasis in original) (citations omitted). Success on the merits, one objective measure of the relative substantiality of a claim, is thus accorded weight (as a "strong inference that *Noerr-Pennington* applies," *id.* at 528), but it does not foreclose inquiry into the litigant's motivation:

> The determinative inquiry is not whether the suit was won or lost, but whether it was significantly motivated by a genuine desire for judicial relief. . . [R]eliance on the success of the earlier claim cannot substitute for proper consideration of any evidence the plaintiff might provide of the petitioner's motivation.

Id.[30]

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[30] *See also Coastal States*, 694 F.2d at 1372:

> A litigant should enjoy petitioning immunity from the antitrust laws so long as a genuine desire for judicial relief is a significant motivating factor underlying the suit. This criterion takes account of the mixed motives that usually actuate human conduct, yet requires that good faith in seeking the protection of the courts be a substantial factor.

(footnote omitted).

Commentators, including Professor Areeda, agree that while success on the merits in the underlying litigation represents strong evidence against a finding of sham, the inquiry properly extends beyond just this one factor. Areeda & Hovenkamp, *supra* n.29, ¶ 203.1d at p. 30. *See also* Calkins, *supra* n.7 at 361-62 ("Even some of those who believe that success is an important consideration would let it erect only a strong presumption, and this seems the better view . . .") (footnote omitted); Hurwitz, *supra* n.9 at 108 ("It is appropriate to draw a strong, although rebuttable, presumption that petitioning efforts are not a sham if they succeed on the merits . . ."); Earl W. Kintner & Joseph P. Bauer, *Antitrust Exemptions for Private Requests for Governmental Action: A Critical Analysis of the Noerr-Pennington Doctrine*, 17 U.C. Davis L. Rev. 549, 576 (1984) ("[E]ven a claim on which the defendant prevailed may be the basis for loss of petitioning immunity through application of the sham exception.") (footnote omitted); Bien, *supra* n.15, at pp. 69, 93; Fischel, *supra*, n.13 at 110-11 n.160.

Because the Ninth Circuit would create an irrebuttable presumption against a finding of sham both with respect to successful *and* baseless litigation App. A, pp. 13a-14a and n.7), the same strong arguments against formalistic line drawing with regard to success on the merits should apply to characterizations of the strength or weakness of the lawsuit.

The Sixth Circuit, in *Westmac*, was even more explicit in affording the objective meritoriousness of the claims pursued in the underlying litigation an important, but not determinative, role. The objective merits of the underlying litigation raise only a "rebuttable presumption that . . . [the litigation] is a serious attempt to obtain a judgment on the merits instead of a mere sham or harassment." *Westmac*, 797 F.2d at 318.[31] The *Westmac* approach does not " 'immunize' " any party's conduct, but rather creates "merely . . . an evidentiary presumption to facilitate the applicability of the sham exception." *Id.* at 320 n.12.

Finally, the Seventh Circuit has offered a more sophisticated way of testing a litigant's subjective intent by examining the economic motivations of a plaintiff, reasoning that a litigation that is not cost-justified by its expected judgment must be motivated by other, less defensible, rationales. *See, e.g., Premier Electrical*, 814 F.2d at 372; *Grip-Pak*, 694 F.2d at 472. In testing such a formulation, the Seventh Circuit has tacitly acknowledged this Court's teachings in the context of conspiracy (another area of the law where courts must grapple with difficult evidentiary questions of subjective intent and motivation). Objective criteria, such as what economic factors suggest about a party's motivations, are powerful objective indicia but are

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[31] Judge Merritt, dissenting in *Westmac*, would go even further, arguing "that the existence of an 'issue of substance' or 'colorable claim' should not be held to create a constitutional presumption - rebuttable or irrebuttable - of no judicial abuse of process, and hence no sham." *Westmac*, 797 F.2d at 320 (Merritt, J., dissenting).

by no means conclusive evidence. Motivation properly remains a subjective inquiry.[32]

Although the other circuits have not defined the bounds of their inquiries as precisely as have the Fifth, Sixth and Seventh, they nonetheless look to various forms of objective evidence in determining whether litigation is an unprotected sham.[33] None have adopted the Ninth Circuit's approach: closing the door on consideration of good faith, based solely upon a finding that the case was not baseless as a matter of law. Certainly none do so where the antitrust defendant was *unsuccessful* in the underlying litigation, *i.e.*, where the litigant does not enjoy any "strong presumption" against sham, Areeda & Hovenkamp, *supra* n.29, ¶ 203.1d at p. 30, often accorded litigation successful on the merits. *Cf.*, *e.g.*, *Eden Hannon*, 914 F.2d at 565; *Razorback*, 761 F.2d at 487; *Redd Horne*, 749 F.2d at 161.

III. This Case Presents A Particularly Appealing Vehicle For Resolving Confusion Among The Circuits With Respect To An Important Antitrust Doctrine.

The Court should grant this petition because continued confusion regarding the sham exception will allow competitors improperly to invoke the shield of *Noerr-Pennington* and to use to litigation as a predatory weapon

[32] *See, e.g.*, *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 587-88 (1986) ("[I]f the factual context renders respondents' claim implausible—if the claim is one that simply makes no economic sense—*respondents must come forward with more persuasive evidence to support their claim than would otherwise be necessary.*" *Id.* at 587 (emphasis supplied)); *Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752, 763-64 (1984).

[33] One commentator has described the approach of most circuits in this fashion:

> [M]ost courts tend to merge the two approaches [examination of a petition's objective reasonableness and review of a petitioner's subjective motivations], requiring a finding of bad faith but accepting as highly persuasive the fact that the petition had no reasonable prospects for success.

Hurwitz, *supra* n.9 at 99.

free from the threat of antitrust liability. Courts will continue to be burdened with litigation which, while asserting facially colorable claims, is never intended to be pursued with vigor by complainants. Moreover, because in this case petitioner's well-pled antitrust claims were rejected without providing petitioner the opportunity to conduct *any* discovery on issues of respondents' motivation, this case presents in the starkest possible fashion the question of whether intent, properly defined, matters in determining sham.

The surge in the number of lawsuits involving allegedly *Noerr-Pennington* protected collusive activities reflects the growing awareness of the power of litigation as a competitive weapon. Litigation can impose enormous disproportionate burdens, particularly on small firms, especially when the consequences of losing the litigation are far greater to the defendant than are the potential gains to be won by the plaintiff.[34] Costs are imposed both directly, in the form of attorneys' fees (which divert resources away from marketing, sales and promotion efforts), and indirectly, in the form of interference with business operations (including the diversion of management resources, diminishing the defendant's ability to obtain funds in the capital markets, and scaring away potential customers who do not wish to risk becoming embroiled in the litigation).[35] Predatory litigants may succeed in either raising their rivals' costs relative to their own, thus imposing an artificial com-

[34] *See, e.g.*, Hurwitz, *supra* n.9 at 71. *See generally* President's Council on Competitiveness, *Agenda for Civil Justice Reform in America* 1-2 (1991).

[35] Many commentators note the enormous predatory potential inherent in litigation, and express fears that an unduly cramped reading of the sham exception fails to acknowledge the very real competitive threat posed by litigation which masquerades as *Noerr-Pennington* protected conduct. *See, e.g.*, Robert H. Bork, *The Antitrust Paradox* 347 (1978); Hurwitz, *supra* n.9 at 69-74; Bien, *supra* n.15, at 41-42 nn.1-2; Maxwell M. Blecher & Joel R. Bennett, *Litigation as an Integral Part of a Scheme to Create or Maintain an Illegal Monopoly*, 26 Mercer L. Rev. 479, 480-81 and nn.1-2 (1975).

petitive hurdle, or deterring entry altogether. *See MCI Communications*, 708 F.2d at 1158; *Grip-Pak*, 694 F.2d at 472. Deterring new entry into a noncompetitive market is particularly to be feared, since existing competitors can easily band together to spread the costs of litigation over their larger cost bases, and entrants or potential entrants in the midst of initial marketing efforts or venture capital formation are particularly susceptible to strategically timed predatory litigation.[36] This Court can send a strong message that the judicial system cannot become just another weapon to be carelessly employed by cynical competitors.

Strong considerations of justiciability and the proper management of judicial resources favor crafting an effective sham exception. In addition to circumstances in which no justiciable "case or controversy" exists, judicial resources should not be expended in the service of litigants who are disinterested in the result. Lacking suitable motivation, these litigants are unlikely to press their cases diligently and firmly, or to present issues sharply for the court. As one commentator has noted:

> [T]he self-interests of the adversaries are relied upon to provide the foundation for sound adjudication. Judicial power is not exercised . . . when courts doubt the existence of sufficient adversary interest to stimulate the parties to a full presentation of the facts and arguments.

13 Charles Alan Wright, Arthur R. Miller, & Edward H. Cooper, *Federal Practice and Procedure* § 3530 at p. 308 (2d ed. 1984). *Cf., e.g., United States v. Johnson*, 319 U.S. 302, 305 (1943) (An " 'honest and actual antagonistic assertion of rights' " to be adjudicated was declared to be a "safeguard essential to the integrity of the judicial process . . ." (*quoting Chicago & Grand Trunk Ry. Co. v. Wellman*, 143 U.S. 339, 345 (1892))); *Granfield v. Catholic Univ. of Am.*, 530 F.2d 1035, 1045 (D.C. Cir.), *cert. denied*, 429 U.S. 821 (1976).

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[36] *See, e.g., MCI Communications*, 708 F.2d at 1158; Hurwitz, *supra* n.9 at 73-75.

This petition presents an exceedingly narrow issue for review, the resolution of which will have a salutary impact on future consideration of sham litigation cases. No court other than the Ninth Circuit has so clearly stated that evidence of the genuineness of a litigant's motivation in seeking a judicial result is not relevant in determining sham so long as the court has determined, as a matter of law, that the underlying action was not "baseless." Certainly no court has reached this conclusion when the antitrust defendants *lost* the underlying litigation, let alone on summary proceedings.

This case does not require the Court to evaluate or endorse one or another of the various standards which have been used by the other circuits in determining whether litigation is a sham, because no standard was developed by the district court or the Court of Appeals in this case. The Court need not draw lines among various objective criteria, or balance the relative weight to be accorded various different elements of subjective intent. In this case, petitioners were not permitted to develop *any* evidence of respondents' subjective intent, and the Ninth Circuit sanctioned that approach. Petitioners seek only that this Court establish firmly that intent matters in a determination of sham, regardless of the facial meritoriousness of the claims.

Conclusion

This Court has consistently emphasized the primacy of a litigant's subjective intent in determining whether otherwise protected petitioning activity is in fact a mere sham. Notwithstanding this teaching, the circuit courts are in conflict as to how the genuineness of a litigant's motivation figures in the sham analysis. With its decision in this case, the Ninth Circuit has polarized the debate, firmly rejecting the teaching of this Court and clearly contradicting the well-considered approaches of at least three other circuit courts. Petitioners respectfully pray that the Court issue a writ of certiorari to review the judgment of the Court of Appeals for the Ninth Circuit.

December 23, 1991

Respectfully submitted,

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APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Nos.
90-55583/90-55668
D.C. No.
CV-83-2594-WPG
OPINION

COLUMBIA PICTURES INDUSTRIES, INC.; EMBASSY PICTURES; PARAMOUNT PICTURES CORPORATION; TWENTIETH CENTURY FOX FILM CORPORATION; UNIVERSAL CITY STUDIOS, INC.; WALT DISNEY PRODUCTIONS; WARNER BROS. INC.; CBS, INC.,

Plaintiffs-counter-defendants-Appellees,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC.; KENNETH F. IRWIN,

Defendants-counter-claimants-Appellants.

Appeal from the United States District Court
for the Central District of California
William P. Gray, District Judge, Presiding.

Argued and Submitted
June 5, 1991—Pasadena, California

Filed September 24, 1991

Before: Betty B. Fletcher and William C. Canby, Jr., Circuit Judges, and Robert J. McNichols,* District Judge.

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* The Honorable Robert J. McNichols, United States Senior District Judge for the Eastern District of Washington, sitting by designation.

Opinion by Judge Canby

SUMMARY

Antitrust

Affirming a district court grant of summary judgment, the court of appeals held that a movie studios' action for copyright infringement was not a "sham", and that, as a result, its bringing of the action against operators of a motel who rented videodiscs of movies subject to copyright for viewing in the hotel rooms was immune from antitrust liability under the doctrine of *Noerr-Pennington.*

Columbia Pictures Industries, Inc. brought a copyright infringement action against appellant Professional Real Estate Investors, Inc., operator of a resort hotel, alleging that PRE violated Columbia's copyrights to certain motion pictures by renting videodiscs of those pictures to its hotel guests for viewing in their hotel rooms. Denying any wrongdoing, PRE filed counterclaims charging that Columbia violated the Sherman Act and state antitrust and unfair competition laws. In support of its antitrust claim, PRE charged that the copyright infringement suit was a sham brought with the intent to monopolize and restrain trade. In addition, PRE alleged that Columbia's concerted refusal to grant licenses to PRE to rent the videos, as well as other unspecified activities, were a pattern of anticompetitive conduct. Postponing further discovery on the antitrust counterclaims, the district court entered summary judgment for PRE on Columbia's copyright action. Subsequently, the district court entered summary judgment for Columbia on PRE's antitrust action.

On the facts of this case, PRE's request for Columbia's licensing amounted to an offer to settle the lawsuit. A decision to accept or reject an offer of settlement is conduct incidental to the prosecution of the suit and not a separate and distinct activity that might form the basis for antitrust liability. Consequently, PRE's success on its

Sherman Act counterclaim depended on its success or failure in showing that the copyright infringement action was actionable under the federal antitrust laws.

Under the *Noerr-Pennington* doctrine, the filing of a lawsuit is immune from the antitrust laws unless the suit is a "sham." Here, Columbia Pictures' copyright infringement action did not involve any of the two recognized types of sham activity. PRE did not allege that the lawsuit involved misrepresentations. Neither did PRE challenge the district court's finding that the infringement action was brought with probable cause. The Ninth Circuit requires both evidence that the lawsuit is baseless and evidence of anticompetitive activity before *Noerr-Pennington* immunity will be ruled out. In addition, the court has held that the prosecution of a single successful lawsuit cannot form the basis for antitrust liability. Because a successful lawsuit involving no fraud upon the court is obviously based on probable cause, it cannot be a sham as a matter of law. The court saw no basis for holding that a suit brought with probable cause in fact and law may be a sham. Such a holding would erode the first amendment right to petition that is the basis for the *Noerr-Pennington* doctrine, by imposing the risk of treble damages for initiating a suit based on a well-founded, but untested, legal theory.

Although summary judgment is rarely granted in antitrust cases before discovery is completed, the court concluded that the district court did not abuse its discretion in denying PRE's assertion that the district court did not resolve the request for discovery. PRE's discovery of Columbia's subjective intent would not raise an issue of material fact sufficient to preclude the entry of summary judgment.

The district court did not abuse its discretion in dismissing PRE's state law counterclaims.

COUNSEL

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Stephen A. Kroft, Rosenfeld, Meyer & Susman, Beverly Hills, California, for the plaintiffs/counterdefendants/appellees.

OPINION

CANBY, Circuit Judge:

Counterclaimants Professional Real Estate Investors and Kenneth Irwin (collectively "PRE") appeal from the entry of an order granting summary judgment in favor of the counterdefendants Columbia Pictures Industries and seven other movie studios (collectively "Columbia Pictures" or "Movie Studios").[1] This appeal involves the propriety of the summary judgment and the applicability of the *Noerr-Pennington* doctrine.

BACKGROUND

This case is before us for the second time. In *Columbia Pictures Industries, Inc. v. Professional Real Estate Investors, Inc.*, 866 F.2d 278 (9th Cir. 1989), we affirmed the district court's grant of summary judgment in favor of PRE on Columbia Pictures' copyright infringement claim. Because Columbia's infringement claim was largely the subject of PRE's counterclaims, we briefly review the facts regarding the original claim and the course of proceedings.

In April 1983, Columbia Pictures brought a copyright infringement action against PRE and Irwin, the operators

[1] The eight movie studios are: Columbia Pictures Industries, Inc.; Embassy Pictures; Paramount Pictures Corporation; Twentieth Century Fox Film Corporation; Universal City Studios, Inc.; Walt Disney Productions; Warner Bros. Inc., and CBS, Inc.

of La Mancha Private Club and Villas, a resort hotel. Columbia Pictures alleged that PRE violated the Movie Studios' copyrights to certain motion pictures by renting videodiscs of those pictures to La Mancha's guests for viewing on videodisc players placed in the hotel rooms.

PRE denied any wrongdoing[2] and filed counterclaims charging that the Movie Studios had violated the Sherman Act and state antitrust and unfair competition laws. In support of its antitrust claims, PRE charged that the copyright infringement suit was a sham brought with the intent to monopolize and restrain trade. In addition, PRE alleged that the Movie Studios' concerted refusal to grant licenses to PRE to rent the videos, as well as other unspecified activities, constituted a pattern of anticompetitive conduct.

After a series of discovery disputes, the parties filed cross-motions for summary judgment on the copyright infringement claim. At the court's request, the parties postponed further discovery on the antitrust counterclaims pending resolution of the cross-motions. In January 1986, the district court entered summary judgment in favor of PRE and against Columbia Pictures. The court concluded that hotel rooms were not public, and that renting videodiscs for viewing in hotel rooms therefore did not constitute unauthorized public performances in violation of the Movie Studios' copyrights. The court entered its decision as a separate final judgment, and Columbia Pictures appealed.

Three months later, PRE filed a second motion to compel discovery. The district court denied the motion and stayed discovery on the counterclaims pending resolution of Columbia Pictures' appeal of the copyright claim. The

[2] There was no claim that PRE had breached any copyright laws in originally purchasing the videodiscs. The dispute was only over the subsequent rental for viewing in rented hotel rooms.

court reasoned that the result of the appeal might affect the scope of discovery. Three years later, after numerous changes in the composition of the appellate panel, this court affirmed the summary dismissal of the copyright action. *Columbia Pictures Industries, Inc. v. Professional Real Estate Investors, Inc.*, 866 F.2d 278 (9th Cir. 1989).

Soon thereafter, PRE requested a scheduling conference limiting the time to complete discovery. As a result of the conference, Columbia Pictures agreed to produce certain documents by August 30, 1989. In September, Columbia Pictures delivered some of the requested documents to PRE.

On September 22, 1989, Columbia Pictures moved for summary judgment on PRE's antitrust counterclaims. PRE filed an opposition to the motion, in which it asserted the right to take further discovery. The only evidence offered by PRE in support of its opposition was a declaration by Irwin. PRE did not submit any of the documents that the Movie Studios had produced in discovery.[3]

The district court granted the Movie Studios' motion for summary judgment. The court held that the copyright infringement action was not a "sham", and that, as a result, the Movie Studios' bringing of that action was immune

[3] We grant Columbia Pictures' motion to strike pages 548-550 and 554-557 from PRE's excerpt of record. PRE did not present these materials to the district court in opposition to Columbia Pictures' motion for summary judgment. *See United States v. Elias*, 921 F.2d 870, 874 (9th Cir. 1990). We disagree with PRE's assertion that these materials were before the district court because PRE had referred to the materials in various discovery requests and pleadings. The record on summary judgment consists of those items referred to in the parties' summary judgment memorandum. A trial judge is not required to peruse every document in the record in ruling on a motion for summary judgment. *Harkins Amusement Enterprises, Inc. v. General Cinema Corp.*, 850 F.2d 477, 482 (9th Cir. 1988), *cert. denied*, 488 U.S. 1019 (1989).

from antitrust liability under the *Noerr-Pennington* doctrine. In support of its conclusion, the court stated:

> [I]t was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the court of appeals had trouble with it as well. I find that there was probable cause for bringing the action . . . .

On the basis of its finding that the action was not a sham, the court also held that further discovery was not required. Finally, the court dismissed PRE's pendent state law claims.

ANALYSIS

PRE asserts that summary judgment in favor of Columbia Pictures was improper because: (1) the court focused only on the lawsuit and failed to consider PRE's other allegations of anticompetitive conduct; (2) the copyright infringement action was a sham; and (3) the court should have permitted PRE additional discovery to prove that the copyright lawsuit was a sham. PRE also argues that the district court abused its discretion in dismissing the pendent state law claims. We address these arguments in turn.

1. Anticompetitive conduct

PRE argues that the summary judgment was improper because the district court failed to consider PRE's other allegations of anticompetitive conduct. In addition to the copyright suit, PRE alleged that the Movie Studios: (1) concertedly refused to grant licenses to PRE to rent videodiscs to its guests; (2) filed or threatened to file similar copyright suits to intimidate other hotels and resorts from adopting similar video rental programs; (3) entered re-

strictive distribution agreements prohibiting the rentals of videos except for home use; (4) attached misleading copyright labels to their videos stating that viewing of the video was restricted to home use; and (5) published threatening advertisements in hotel trade journals warning hotels not to rent or use the plaintiffs' copyrighted videos for viewing in guest rooms. Although the court did not address these additional allegations,[4] we conclude that reversal is not required.

PRE's first allegation — the concerted refusal to deal — relates to PRE's attempts, after Columbia Pictures instituted the copyright infringement action, to obtain licenses from the Movie Studios to use and install in-room videodisc systems in the guest rooms. On the facts of this case, PRE's request for licensing amounted to an offer to

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[4] We disagree with the Movie Studios' assertion that the district court carefully considered and rejected the refusal to deal allegation at oral argument on December 18, 1989. At the hearing, the court discussed the claim, but did not make a ruling. The court took the motion to dismiss under submission to determine the applicable law. The court did not address this issue again, either at the hearing or in the subsequent order granting summary judgment.

We also reject the Movie Studios' argument that the only other allegation of anticompetitive conduct made by PRE was the concerted refusal to deal. PRE's complaint alleges:

> [The Movie Studios] engaged in and continue to engage in the following activities, among others: the filing of this suit, which is a sham and false and known by plaintiffs to be so; bad faith prosecution of this suit; boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs; *and other activities* to coerce defendants into acquiescing to plaintiffs' attempts to monopolize, restrain and eliminate the relevant trade and commerce and to destroy counter-claimants' business.

(Emphasis added). PRE detailed the other four claims of anticompetitive conduct and set out their factual allegations in various motions for discovery. Moreover, PRE included all five allegations in its opposition to the motion for summary judgment.

settle the lawsuit. If Columbia Pictures agreed to license PRE, the lawsuit would be moot.

A decision to accept or reject an offer of settlement is conduct incidental to the prosecution of the suit and not a separate and distinct activity which might form the basis for antitrust liability. Consequently, PRE's ability to establish that the Movie Studios' refusal to deal violated the Sherman Act depends on its success or failure in showing that the copyright infringement action is actionable under the federal antitrust laws. *See generally Aircapital Cablevision, Inc. v. Starlink Communications Group, Inc.*, 634 F. Supp. 316, 326 (D.Kan. 1986) (where underlying litigation is not a sham, attendant publicity is protected by *Noerr-Pennington* doctrine). This issue is discussed in section 2, *infra*.

The four remaining allegations do not establish a violation of either section 1 or section 2 of the Sherman Act because PRE failed to demonstrate that the alleged conduct caused antitrust injury. *See Rickards v. Canine Eye Registration Foundation, Inc.*, 783 F.2d 1329, 1332, 1335 (9th Cir.), *cert. denied*, 479 U.S. 851 (1986)(to establish a violation of Sherman Act sections 1 or 2, an antitrust plaintiff must establish the element of "causal antitrust injury"). PRE neither pleaded nor presented evidence that the La Mancha Resort's videodisc rental service had been interrupted, that the Resort lost a single guest, or that the Movie Studios' conduct prevented Irwin from marketing the Resort's video viewing system to other hotels. We note that PRE did not need formal discovery procedures to establish resulting antitrust injury to the resort or to ascertain the basis for other hotels' rejection of Irwin's video system.

We reject PRE's argument that Kenneth Irwin's declaration provides an initial showing of the injury element.

Irwin's affidavit does not satisfy the requirements of Fed. R. Civ. P. 56(e).[5] The affidavit states in relevant part:

> I had attempted to develop a market for the sale and installation of video disc player equipment to other hotels for private, in-room, movie viewing. As an RCA representative, I had contacted other hotels in an attempt to install video disc player equipment using the in-room video technology employed at our La Mancha facility. I believe that hotels were reluctant to invest in in-room video viewing systems out of fear of litigation with the counterdefendant movie studios. I believe further that larger chains, in particular, were reluctant to make a substantial investment in video technology absent a license from the movie studios.

Because Irwin's declaration is not based on personal knowledge, but on information and belief, his statement does not raise a triable issue of fact regarding antitrust injury. *See Taylor v. List,* 880 F.2d 1040, 1045 n.3 (9th Cir. 1989).

2. Noerr-Pennington

If the bringing of Columbia's copyright infringement suit violated the antitrust laws, however, the costs of defending the suit would constitute antitrust injury. *Rickards,* 783 F.2d at 1334-35. We therefore address PRE's claim that the infringement suit itself violated the antitrust laws.

[5] Rule 56(e) provides:

> Supporting and opposing affidavits shall be made on personal knowledge, shall set forth such facts as would be admissible in evidence, and shall show affirmatively that the affiant is competent to testify to the matters stated therein.

Under the *Noerr-Pennington* doctrine,[6] the filing of a lawsuit is immune from the antitrust laws unless the suit is a "sham." *California Motor Transport Co. v. Trucking Unlimited,* 404 U.S. 508, 510 (1972). A sham suit is one that is an abuse of the judicial processes. Id. at 513. In *California Transport,* the Supreme Court identified two types of sham activity: "misrepresentations . . . in the adjudicatory process" and the pursuit of "a pattern of baseless, repetitive claims." *Id.* Thus, in *California Transport,* the Court held that a complaint alleging that the petitioner's competitors initiated administrative proceedings against the petitioner "without probable cause, and regardless of the merits," stated an antitrust cause of action. *Id.* at 512.

Columbia Pictures' copyright infringement action does not involve either of these two types of sham activity. PRE does not allege that the lawsuit involved misrepresentations. Moreover, PRE does not challenge the district court's finding that the infringement action was brought with probable cause, i.e., that the suit was not baseless. Rather, PRE argues that the copyright infringement lawsuit is a sham because Columbia Pictures did not honestly believe that the infringement claim was meritorious. According to PRE, Columbia Pictures' subjective intent in bringing the suit was a question of fact precluding entry of summary judgment.

Curiously, PRE cites our decision of *Rickards v. Canine Eye Registration Foundation, Inc.,* 783 F.2d at 1334, and the Fifth Circuit's decision of *In re Burlington Northern, Inc.,* 822 F.2d 518, 529 (5th Cir. 1987), in support of its assertion that a suit is a sham if the litigant did not have an honest belief that the suit was meritorious. These two opinions, however, are at odds with each other in their

[6] *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.,* 365 U.S. 127 (1961); *United Mine Workers v. Pennington,* 381 U.S. 657 (1965).

analysis of whether a lawsuit is a sham. We have not followed the Fifth Circuit's approach in evaluating this issue.

In *In re Burlington Northern, Inc.*, the Fifth Circuit held that a litigant's subjective motivation in bringing a lawsuit is a factor in determining whether the action is a sham. According to the Fifth Circuit, "the determinative inquiry is not whether the suit was won or lost, but whether it was significantly motivated by a *genuine* desire for judicial relief." 822 F.2d at 528. The court explained that "a genuine desire for relief means that the desire for relief must be both honest and reasonable." *Id.* at 529. On the basis of this analysis, the court rejected the argument that a successful lawsuit can never be a sham. *Id.* at 528.

Unlike the Fifth Circuit, we have held that a suit must be baseless to lose its protection under the *Noerr-Pennington* doctrine. In *Rickards,* we emphasized that immunity is not afforded to those who resort to *"sham or unfounded* litigation solely for anticompetitive purposes" and that "a single *meritless* suit" may be sufficient to defeat the *Noerr-Pennington* immunity. 783 F.2d at 1334 (emphasis added). We explained that our cases require both evidence that the lawsuit is *baseless and* evidence of anticompetitive activity before *Noerr-Pennington* immunity will be ruled out. *Id.*

> When the antitrust plaintiff challenges one suit and not a pattern, *a finding of sham requires not only that the suit is baseless,* but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anti-competitive.

Id. (emphasis added) (quoting *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984)). Thus, in *Rickards,* in determining whether the sham exception was applicable, we considered the defendant's good-

faith belief in the merits of its suit only after we noted that the underlying litigation was baseless.

In contrast, in *Ad Visor, Inc. v. Pacific Telephone & Telegraph Co.*, 640 F.2d 1107 (9th Cir. 1981), our inquiry ended once it was determined that the litigant's lawsuits were not baseless. There, we held that a litigant who brought 64 lawsuits for nonpayment of contract was protected by the *Noerr-Pennington* doctrine for prosecuting the suits because one defendant in the original action admitted that it owed the plaintiff and another defendant conceded that it *might* owe the plaintiff some money. *Id.* at 1110. Similarly, in *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984), our analysis terminated once we determined that the underlying lawsuit was not a sham.

Finally, in contrast to the Fifth Circuit, we have held that the prosecution of a single successful lawsuit cannot form the basis for antitrust liability. *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1384 (9th Cir. 1984). Because a successful lawsuit involving no fraud upon the court is obviously based on probable cause, it cannot be a sham as a matter of law.[7] *See Omni Resource*, 739 F.2d at 1414

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[7] PRE claims that we have never held that a successful lawsuit cannot be a sham as a matter of law. PRE first asserts that *Sealy* merely recognizes that this circuit has not yet found a successful lawsuit to be a sham. We disagree. *Sealy* makes no such statement. PRE also points to a dictum in *Ernest W. Hahn, Inc. v. Codding*, 615 F.2d 830, 841 n.13 (9th Cir. 1980), and *Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1245 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983), which states that success is not the sole criterion for determining whether a suit is a sham. This dictum is not inconsistent with our holding in *Sealy* insofar as it refers to the second type of sham activity identified in *California Transport*—"misrepresentations in the adjudicatory process." If a litigant procures a favorable judgment through misrepresentations or other unethical conduct, the success of the lawsuit would not shield the litigant from the antitrust laws. For example, in *Clipper Exxpress*, the plaintiffs alleged that the defendants

(suit cannot be baseless where, although outcome unknown, the state court plaintiffs were successful at least to the point of receiving a preliminary injunction); *Coca-Cola Co. v. Overland, Inc.*, 692 F.2d 1250, 1257 n.17 (9th Cir. 1982) (no authority for the proposition that the bringing of meritorious suits can constitute sham suits violative of the antitrust laws).[8]

Because the sham exception to the *Noerr-Pennington* rule may have a chilling effect on those who seek redress in the courts, we have held that the exception should be applied with caution. *Rickards,* 783 F.2d at 1334. We see no basis for holding that a suit brought with probable cause in fact and law may be a sham. Such a holding would erode the first amendment right to petition that is the basis for the *Noerr-Pennington doctrine, see Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 137-38 (1961), by imposing the risk of

attempted to influence the ICC by supplying fraudulent information to the ICC. 690 F.2d at 1247. As noted earlier, there are no allegations of misrepresentation in the present case.

[8] The Supreme Court has also indicated that successful petitioning cannot be a sham. *See Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 502 (1988) (effort to influence governmental action by lobbying an organization that promulgates code for electrical materials cannot be characterized as a sham in light of the actual adoption of the code into a number of statutes and local ordinances). The Third, Fourth, Sixth, and Tenth Circuits have also so held. *See Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 161 (3d Cir. 1984)(success on merits of copyright infringement claim precludes finding of sham); *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 564-65 (4th Cir. 1990), *cert. denied*, 111 S.Ct. 1414 (1991)(successful suit cannot be a sham); *Potters Medical Center v. City Hosp. Ass'n*, 800 F.2d 568, 579 (6th Cir. 1986)(success strongly suggests that actions were not baseless); *Edward B. Marks Music Corp. v. Colorado Magnetics, Inc.*, 497 F.2d 285, 290-92 (10th Cir. 1974), *cert. denied*, 419 U.S. 1120 (1975)(any suggestion of sham on the part of the litigant disappears in view of our determination that the litigant has an enforceable copyright interest).

treble damages for initiating a suit based on a well-founded, but untested, legal theory.

In the present case, the Movie Studios' copyright infringement suit presented an issue of first impression both at the district court level and in this circuit. The first amendment right of petition is particularly strong in such a case. The district court concluded that the lawsuit was brought with probable cause and presented issues that were difficult to resolve. This finding, which PRE does not challenge, precludes the application of the sham exception as a matter of law.[9]

PRE points to language in three of our cases stating that the applicability of the sham exception is a question of fact: *Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240 (9th Cir. 1982), *cert. denied,* 459 U.S 1227 (1983); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897 (9th Cir. 1983); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386 (9th Cir. 1983). From this language, PRE argues that the determination that a lawsuit is brought with probable cause — a legal question — cannot be the test in this circuit for ascertaining whether the suit is a sham.

We do not believe that the language referred to in the three cases cited above is inconsistent with our holding. Although we have never referred to our analysis as a two-part test, it is clear from our discussion in *Rickards,* as well as in our other cases, that an antitrust plaintiff must make a two-part showing to support a finding of sham: (1) that the suit is baseless — a legal question, *see Sealy,* 743 F.2d at 1384 (affirming grant of summary judgment where underlying suit was successful); and (2) that the suit

[9] The fact that the present lawsuit was resolved on cross-motions for summary judgment does not affect our evaluation of the objective reasonableness of the suit. The questions presented in the infringement action were purely legal.

was brought as part of an anticompetitive plan external to the underlying litigation — a question of fact. In the three cases cited by PRE, only the second prong of the test was at issue. *See e.g., Clipper Exxpress*, 690 F.2d at 1253 (whether sham exception applies is a question of fact where defendants conceded that they instituted protests before the ICC automatically and without regard to merit); *Aydin*, 718 F.2d at 902 (affirming grant of summary judgment where plaintiff produced no evidence of sham aside from the filings of the actions; court was unable to determine whether the suit was baseless because the action was still pending); *Heliodyne, Inc.*, 698 F.2d at 389 (remanding for reconsideration in light of *Clipper Exxpress* where the plaintiff alleged that the defendant Heliodyne conspired with other competitors to bring a *sham* suit against the plaintiff in state court and it appeared that the district court may have dismissed on the mistaken belief that a single lawsuit could not constitute a sham).

We decline to adopt the Fifth Circuit's subjective approach and reaffirm our earlier holding in *Rickards*. We believe that the Supreme Court's pronouncements on the sham exception support our conclusion. *See Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731, 743 (1983)(by analogy to the *Noerr-Pennington* doctrine and its sham exception, the NLRB may enjoin a suit as an unfair labor practice only if the suit was "based on insubstantial claims" or lacked "a reasonable basis").[10] Simply stated, a suit brought with probable cause does not fall within the sham exception to the *Noerr-Pennington* doctrine.[11]

[10] In *Bill Johnson*, the Court concluded:

> [W]e hold that the Board may not halt the prosecution of a state-court lawsuit, *regardless of the plaintiff's motive, unless the suit lacks a reasonable basis in fact or law*. Retaliatory motive *and lack of reasonable basis* are both essential prerequisites to the issuance of a cease-and-desist order against a state suit. *Id.* at 748-49 (emphasis added).

[11] We note that several other circuits are in accord with our conclusion. *See Eden Hannon & Co.*, 914 F.2d at 564-65 (intent of litigant only becomes relevant once the invalidity of the legal claims is established); *Juster Associates v. City of Rutland*, 901 F.2d 266, 271 (2d Cir. 1990) ("To be immune, participation in administrative or judicial processes must be for the purpose of asserting *colorable* claims within the jurisdiction of the particular tribunal."); *Opdyke Inv. Co. v. City of Detroit*, 883 F.2d 1265, 1273 (6th Cir. 1989) (unsuccessful lawsuit not a sham where the trial court did not treat the theory as frivolous and the antitrust plaintiffs did not contend that the theory of the underlying case was so farfetched as to warrant the imposition of sanctions against the attorneys who brought it); *Potters Medical Center*, 800 F.2d at 579 (success is not necessarily a prerequisite to receiving protection under *Noerr-Pennington*).

3. Discovery

In its reply brief, PRE argues that the summary judgment must be reversed because the district court failed to rule on its request for discovery. PRE relies on *Garrett v. City & County of San Francisco*, 818 F.2d 1515 (9th Cir. 1987). In *Garrett*, we held that the trial court erred in failing to consider the plaintiff's pending motion for discovery prior to granting the defendant's motion for summary judgment because the evidence sought by the plaintiff in discovery was necessary to satisfy the plaintiff's burden of persuasion on summary judgment.

Although summary judgment is rarely granted in antitrust cases before discovery is completed, *see Ernest W. Hahn, Inc. v. Codding*, 615 F.2d 830, 834 (9th Cir. 1980), we conclude that the district court did not abuse its discretion in denying PRE's request for further discovery. We disagree with PRE's assertion that the district court did not resolve the request for discovery.[12] In its decision, the court noted that PRE requested discovery on the issue of the Movie Studios' subjective intent in bringing the copyright action. The court then concluded that even if

[12] We note that this assertion is inconsistent with PRE's opening brief, where PRE stated that the court based its denial of the request for discovery on its conclusion that a lawsuit brought with probable cause could not be a sham.

the Movie Studios had an anticompetitive intent in bringing the action, they did not lose their *Noerr-Pennington* immunity. Thus, the court implicitly ruled that the materials sought in discovery would not defeat PRE's motion for summary judgment.

The district court's conclusion is consistent with our holding on the *Noerr-Pennington* issue; evidence of the Movie Studios' subjective intent was relevant only if it was shown that the copyright infringement action was baseless. *Garret* is therefore inapposite; PRE's discovery of the Movie Studios' subjective intent would not raise an issue of material fact sufficient to preclude the entry of summary judgment.

4. Dismissal of the state law counterclaims

PRE advances two arguments in support of its assertion that the district court erred in dismissing its state law counterclaims. PRE first contends that the district court should not have dismissed its state law claims because they were compulsory counterclaims. PRE asserts that once ancillary jurisdiction attaches, a court is not relieved of its power to hear the ancillary state claims by subsequent dismissal of the federal claims. This argument lacks merit. The district court's *power* to hear claims is not at issue; the question is whether the district court acted within its discretion in dismissing the state law claims.

The court's decision to dismiss the claim is governed by "considerations of judicial economy, convenience and fairness to litigants." *Notrica v. Bd. of Supervisors of County of San Diego*, 925 F.2d 1211, 1213 (9th Cir. 1991) (quoting *United Mine Workers of America v. Gibbs*, 383 U.S. 715, 726 (1966)). PRE argues that, in light of these factors, the district court should not have dismissed its state law claims. PRE notes that the counterclaims have been pending in the district court for six years and the court is familiar with the claims. In addition, PRE asserts that forcing it to initiate a new suit in state court would subject

it to further delay and possibly to additional defenses such as the statute of limitations.

Although we sympathize with PRE, we cannot, on these facts, conclude that the district court abused its discretion in dismissing the state law counterclaims. First, PRE would not be prejudiced if required to file its state law claims in the state courts. California equitably tolls the statute of limitations period during the time a suit is pending in federal court. *See Addison v. State*, 21 Cal.3d 313, 319, 146 Cal.Rptr. 224, 578 P.2d 941 (1978). PRE's remaining argument—that the filing in state court would cause further delay—is foreclosed by *Danner. v. Himmelfarb*, 858 F.2d 515, 523 (9th Cir. 1988), *cert. denied*, 490 U.S. 1067 (1989). There, we held that delay does not constitute a sufficient basis for finding that the district court abused its discretion.

The decision of the district court is

AFFIRMED.

APPENDIX B

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. CV 83 2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.

FILED
CLERK, U.S. DISTRICT COURT
APR 8 1990
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

AMENDED SUMMARY JUDGMENT IN FAVOR OF PLAINTIFFS ON COUNTERCLAIM AND RELATED COUNTERCLAIM

On December 18, 1989, the above-captioned matter came on regularly for hearing in the Courtroom of the Honorable William P. Gray, District Judge, on plaintiffs' and counterclaim defendants' motion for summary judgment on the counterclaim asserted by defendants and cross-complainants. Plaintiffs and counterclaim defendants appeared through their counsel, Rosenfeld, Meyer & Susman and Stephen A. Kroft and James L. Seal, and defendants and counterclaim plaintiffs appeared through their counsel, Collier, Shannon & Scott and Jeffrey W. King. The parties

filed memoranda of points and authorities and affidavits in support of and in opposition to said motion prior to the December 18, 1989 hearing. After the hearing, the parties submitted additional memoranda of points and authorities in support of and in opposition to the motion.

Having read and considered the papers filed by the parties in support of and in opposition to the motion, and having heard and considered oral argument of counsel, and having determined that plaintiffs and counterclaim defendants are entitled to a judgment on the counterclaim as a matter of law, and good cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. Plaintiffs' and Counterclaim Defendants' Motion For Summary Judgment As To The First, Second And Third Counterclaims And For Dismissal Of Remaining Pendent Claims is granted.

2. The First Counterclaim, Second Courterclaim and Third Courterclaim, and each of them, are hereby dismissed on the merits with prejudice.

3. The pendent claims arising under state law asserted in the Fourth Counterclaim, Fifth Counterclaim, Sixth Counterclaim and Seventh Counterclaim are hereby dismissed without prejudice for lack of subject matter jurisdiction.

4. Plaintiffs-and counterclaim defendants shall have and recover their costs incurred in defending the Counterclaim and each claim contained therein.

5. Until all appeals, if any, from this amended judgment have been resolved, dismissed or abandoned, or the time for filing a notice of appeal from this amended judgment has expired without such a notice of appeal having been filed, or until otherwise ordered by this Court or by the Ninth Circuit Court of Appeals, plaintiffs and counterclaim

defendants are prohibited from destroying documents related in any way to the counterclaims. This Court shall retain continuing jurisdiction to dissolve, vacate, suspend, modify or enforce the provisions of this Paragraph 5 during the pendency of any appeal in this action.

6. The Clerk is directed to enter this amended judgment in favor of plaintiffs and counterclaim defendants forthwith.

DATED: April 4, 1990

/s/ William P. Gray
WILLIAM P. GRAY
UNITED STATES DISTRICT JUDGE

APPENDIX C

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CASE NO. CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC., et al.,
Plaintiffs,

vs.

PROFESSIONAL REAL ESTATE INVESTORS, INC., et al.,
Defendants.

FILED
CLERK, U.S. DISTRICT COURT
MAR 2 1990
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

MEMORANDUM OF DECISION

The plaintiff's motion for summary judgment on the defendant's counterclaim was heard on December 12, 1989, and taken under submission by the court for the purpose of determining whether the "sham" exception to the Noerr-Pennington doctrine[1] applies to the action of the plaintiff in having filed and prosecuted this case. The court now concludes that such action was not a sham and that, under the Noerr-Pennington doctrine, the counterclaim must be dismissed.

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[1] *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); and *United Mine Workers v. Pennington*, 381 U.S. 657 (1965).

The claim that the plaintiff set forth in its complaint was adjudicated by this court. It was clear from the manner in which the case was presented that the plaintiff was seeking and expecting a favorable judgment. Although I decided against the plaintiff, the case was far from easy to resolve, and it was evident from the opinion affirming my order that the Court of Appeals had trouble with it as well. I find that there was probable cause for bringing the action, regardless of whether the issue was considered a question of fact or of law.

Under the Noerr-Pennington doctrine, "[f]irst amendment protection is extended and application of the antitrust laws suspended because a legitimate effort to influence government action is part of the guaranteed right to petition." *Clipper Exxpress v. Rocky Mountain Motor Tariff,* 690 F.2d 1240, 1255 (9th Cir. 1982). Here the plaintiff's attempt, although unsuccessful, was clearly a legitimate effort and therefore not a sham.

The defendant points to the comment in the opinion in *Clipper* that "whether something is a genuine effort to influence governmental action is a question of fact." 690 F.2d at 1253. The defendant then insists that it is entitled to discovery in an effort to show that the plaintiff brought this action in furtherance of its efforts "to restrain and eliminate trade in the retail sale and rental of videos and, in particular, in the rental of videos for private viewing in hotel rooms." (Defendant's brief of February 12, 1990, page 2, fn. 1).

However, as is pointed out in *Clipper,* 690 F.2d at 1251; the Supreme Court in *Noerr* held that "even if the defendants' sole purpose in seeking to influence the passage and enforcement of laws was to destroy the truckers' business, the immunity remained."

This case is distinguishable from *Clipper* and from *California Motor Transport Co. v. Trucking Unlimited,* 404 U.S. 508 (1972), upon which the defendant relies, in that, there, the actions alleged to have been sham were assertions made in pleadings and could not be factually evaluated; here, the accused actions were adjudicated by the court and specifically determined not to have been a sham.

In accordance with the foregoing, a judgment dismissing the counterclaim will be rendered

DATED: March 1, 1990

/s/ William P. Gray
WILLIAM P. GRAY
United States District Judge

APPENDIX D

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

No. 86-5641

D.C. No.
CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC.; EMBASSY PICTURES; PARAMOUNT PICTURES CORPORATION; TWENTIETH CENTURY-FOX FILM CORPORATION; UNIVERSAL CITY STUDIO, INC; WALT DISNEY PRODUCTION; WARNER BROS., INC.; CBS, INC.,

Plaintiffs-Appellants,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., dba La Mancha Private Club & Villas; KENNETH F. IRWIN,

Defendants-Appellees.

No. 86-5664

D.C. No.
CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC,; PARAMOUNT PICTURES CORPORATION; TWENTIETH CENTURY-FOX FILM CORPORATION; UNIVERSAL CITY STUDIOS, INC.; WALT DISNEY PRODUCTIONS; WARNER BROS., INC.; CBS, INC.; EMBASSY PICTURES,

Plaintiffs-Appellants,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., dba La Mancha Private Club & Villas; KENNETH F. IRWIN; ERLAND KYLLONEN,

Defendants-Appellees.

No. 86-5677

D.C. No.
CV 83-2594-WPG

COLUMBIA PICTURES INDUSTRIES, INC.; PARAMOUNT PICTURES CORPORATION; TWENTIETH CENTURY-FOX DISTRIBUTING CORPORATION; UNIVERSAL CITY STUDIOS, INC.; WALT DISNEY PRODUCTIONS; WARNER BROS., INC.; CBS, INC.; EMBASSY PICTURES, *Plaintiffs-Appellants,*

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., dba La Mancha Private Club & Villas; KENNETH F. IRWIN,

Defendants-Appellees

OPINION

Appeal from the United States District Court
for the Central District of California,
William P. Gray, District Judge, Presiding

Argued January 9, 1987
Reargued and Submitted March 22, 1988
Pasadena, California

Filed January 17, 1989

Before: Harry Pregerson, Arthur L. Alarcon and
Diarmuid F. O'Scannlain, Circuit Judges.*

Opinion by Judge O'Scannlain

SUMMARY

Copyright, Patent and Trademark

Affirming a grant of summary judgment, the court held that a hotel did not violate the Copyright Act by renting

* This case was originally argued before Judges Kennedy, O'Scann-

videodiscs to its guests for viewing on hotel-provided video equipment in the guests' rooms.

Columbia Pictures, Inc. and other appellants, appeal the district court's grant of summary judgment in favor of Professional Real Estate Investors of La Mancha Hotel. The district court concluded that a hotel did not violate the Copyright Act by renting videodiscs for viewing on hotel-provided video equipment in guests' rooms.

[1] The issue is whether La Mancha performed copyrighted works "publicly" within the meaning of 17 U.S.C. § 1064(4). [2] Applying the public place clause of section 101, Columbia argues that because La Mancha's hotel rooms can be rented by members of the public, they are "open to the public," and therefore, movies viewed in a guest's room at La Mancha are "performed publicly." Hotel guest rooms, however, are not "public" for purposes of the Act. [3] The movies are viewed exclusively in guest rooms, places where individuals enjoy a substantial degree of privacy, not unlike their own homes. [4] Nor does La Mancha "communicate" the in-room performances. Facilitation of the in-room performance does not mean that La Mancha "otherwise communicates" under the transmit clause of section 101.

COUNSEL

Stephen A. Kroft, Rosenfeld, Meyer & Susman, Beverly Hills, California, for the plaintiffs-appellants.

Jeffrey W. King, Collier, Shannon, Rill & Scott, Washington, D.C., for the defendants-appellees.

lain, and Wilkins. Upon his appointment to the Supreme Court of the United States in February 1988, Judge Kennedy was replaced by Judge Reinhardt. Prior to reargument, Judge Wilkins was replaced by Judge Pregerson. Subsequent to reargument, Judge Reinhardt was replaced by Judge Alarcon, who has read the briefs and listened to the tapes of the reargument.

OPINION

O'SCANNLAIN, Circuit Judge

Columbia Pictures, Inc. and other appellants, all of which are motion picture producers, appeal the district court's grant of summary judgment in favor of Professional Real Estate Investors, Inc. and Kenneth Irwin, operators of La Mancha, a hotel resort in Palm Springs, California. The district court (William P. Gray, Senior United States District Judge, presiding) concluded that a hotel did not violate the Copyright Act by renting videodiscs for viewing on hotel-provided video equipment in guests' rooms. We affirm Judge Gray's decision.

FACTS AND PROCEEDINGS

La Mancha hotel guests may rent movie videodiscs from the lobby gift shop for a $ 5 to $ 7.50 daily fee per disc, which can be charged on the hotel bill. Each guest room is equipped with a large screen projection television and videodisc player. Motel employees are available upon request to answer questions by guests about operating the in-room equipment. Guests view the videodisc movies projected on the television screens in their rooms.

After learning of these activities at La Mancha, Columbia Pictures, Inc. and six other motion picture studios ("Columbia") filed suit to prevent La Mancha[1] from renting videodiscs to its guests, alleging copyright infringement. La Mancha counterclaimed, alleging unfair competition and violation of antitrust laws. Cross-motions for summary judgment concerning the copyright infringement claim were thereafter filed.

The district court granted La Mancha's motion for summary judgment, concluding as a matter of law that the

[1] Defendants Professional Real Estate Investors, Inc. and Kenneth Irwin will be referred to as "La Mancha" in this opinion.

movies were not performed "publicly" within the meaning of the Copyright Act when hotel guests viewed them in their own hotel rooms. Columbia timely appealed.

Because this case was decided on summary judgment, our review is *de novo*. *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 852 (9th Cir. 1988).

DISCUSSION

[1] We are asked to determine whether La Mancha has violated Columbia's exclusive right under the Copyright Act, 17 U.S.C. §§ 101-702 (the "Act"), to control the public performance of its copyrighted motion pictures. Because it is uncontroverted that the motion pictures have been "performed" within the meaning of the Act,[2] the narrow issue before us is whether La Mancha performed copyrighted works "publicly"[3] within the meaning of 17 U.S.C. § 106(4).

A performance may be characterized as public under the Act through application of two clauses which define the term "perform or display a work 'publicly.' " Under clause (1), a performance is public if it occurs "at a place open

[2] To "perform" a work is defined in the Copyright Act as, "in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible." 17 U.S.C. § 101 (1977).

[3] The district court observed that the "first sale doctrine" allows one who purchases or rents videodiscs legally to view them in his or her home. *Columbia Pictures v. Professional Real Estate Investors*, 228 U.S.P.Q. 743, 745 (C.D. Cal. 1986). Judge Gray thereupon held that "the viewing of a motion picture in a hotel room is no different from viewing movies in a private home." *Id.* Columbia does not dispute La Mancha's right under the first sale doctrine itself; instead, it contends that the "public" nature of hotels takes this case outside the ambit of the first sale exception. Such an interpretation of the first sale doctrine would presumably protect La Mancha's rental of videodiscs to its guests (an issue we need not address) unless the public place or transmit clause applies.

to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." 17 U.S.C. § 101 (1977) (the "public place" clause). Under clause (2), a performance is public if someone "transmit[s] or otherwise communicate[s] a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times." *Id.* (the "transmit" clause). Columbia argues that when La Mancha permits hotel guests to rent videodiscs for in-room viewing on hotel provided equipment, such actions constitute a public performance under either definitional clause of the Act.[4]

A. ***Does the Public Place Clause Apply?***

Columbia bases its copyright infringement claim against La Mancha upon section 106, which provides, in pertinent part:

[4] Unless otherwise indicated, we assume that the legislative will is expressed by the ordinary meaning of the words used in the statute. *Moorhead v. United States*, 774 F.2d 936, 941 (9th Cir. 1985). Consequently, the plain language is regarded as conclusive, *Central Montana Elec. v. Administrator of Bonneville Power*, 840 F.2d 1472, 1477 (9th Cir. 1988), unless (1) the statutory language is unclear, (2) the plain meaning of the words is at variance with the policy of the statute as a whole, or (3) a clearly expressed legislative intent exists contrary to the language of the statute. *See Richards v. United States*, 369 U.S. 1, 11 (1962) ("We believe it fundamental that a section of a statute should not be read in isolation from the context of the whole Act, and that fulfilling our responsibility in interpreting legislation, 'we must. . . look to the provisions of the whole law, and to its object and policy.' "(citations omitted); *Escobar Ruiz v. I.N.S.*, 838 F.2d 1020, 1023 (9th Cir. 1988). Ultimately, "[i]n construing statutes our goal is to 'ascertain the intent of Congress and to give effect to legislative will.' " *West Coast Truck Lines v. Arcata Comm. Recycling Center, Inc.*, 846 F.2d 1239, 1242 (9th Cir. 1988) (quoting Turner v. McMahon, 830 F.2d 1003, 1007 (9th Cir. 1987)).

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

. . . .

(4) in the case of . . . motion pictures . . . to perform the copyrighted work publicly.

[2] Applying the public place clause of section 101, Columbia argues that because La Mancha's hotel rooms can be rented by members of the public, they are "open to the public," and therefore, movies viewed in a guest's room at La Mancha are "performed . . . publicly." The plain language and the legislative history together lead us to conclude that hotel guest rooms are not "public" for purposes of the Act.

Columbia largely relies upon two Third Circuit cases for its position. In *Columbia Pictures Industries v. Redd Horne*, 749 F.2d 154 (3d Cir. 1984), the Third Circuit held that private viewing rooms would not escape the "public place" clause because the pertinent place was the entire store — which was public. *Id.* at 159. That court drew its conclusion after determining that "[t]he services provided by Maxwells [the video stores] are essentially the same as movie theaters." *Id.*

In *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986), the court noted that "[o]ur opinion in *Redd Horne* turned not on the precise whereabouts of the video cassette players, but on the *nature* of Maxwell's stores. Maxwell's, like Aveco, was willing to make a viewing room and video cassette available to any member of the public with the inclination to avail himself of this service." *Id.* at 63 (emphasis added).

La Mancha's operation differs from those in *Aveco* and *Redd Horne* because its "nature" is the providing of living accommodations and general hotel services, which may in-

cidentally include the rental of videodiscs to interested guests for viewing in guest rooms.

[3] While the hotel may indeed be "open to the public," a guest's hotel room, once rented, is not. *See Stoner v. California*, 376 U.S. 483, 490 (1964) (constitutional protection from unreasonable searches and seizures in hotel rooms); *United States v. Winsor*, 846 F.2d 1569 (9th Cir. 1988) (en banc) (same). This conclusion is further supported by common experience. La Mancha guests do not view the videodiscs in hotel meeting rooms used for large gatherings. The movies are viewed exclusively in guest rooms, places where individuals enjoy a substantial degree of privacy, not unlike their own homes.

Consideration of pertinent legislative history also compels our rejection of appellant's claim. The House Commentary on the 1976 version of the Act attempted to clarify the meaning of "perform the copyrighted work publicly":

Under Clause (1) of the definition of "publicly" in § 101, a performance . . . is "public" if it takes place "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." One of the principal purposes of the definition was to make clear that, contrary to the decision in *Metro-Goldwyn-Mayer Dist. Corp. v. Wyatt*, 21 C.O. Bull. 203 (D. Md. 1932), performances in "semi-public" places such as clubs, lodges, factories, summer camps and schools are "public performances" subject to copyright control. The term "a family" in this context would include an individual living alone, so that a gathering confined to the individual's social acquaintances would normally be regarded as private. Routine meetings of businesses and governmental personnel would be excluded because

they do not represent the gathering of a "substantial number of persons."[5]

H.R. Rep. No. 1476, 94th Cong., 2d *Sess., reprinted in* 1976 U.S. Code Cong. & Admin. News 5659, 5677-78. This passage from the legislative history reveals that Congress intended neither the number of persons at a performance nor the location of the performance to be determinative of the public character of a performance. Nevertheless, to the extent that a gathering of one's social acquaintances is normally regarded as private, we conclude that in-room videodisc movie showings do not occur at a "place open to the public."

B. *Does the Transmit Clause Apply?*

Columbia also argues that La Mancha's rentals result in a public performance under the "transmit" clause. We disagree.

The crucial words of the transmit clause provide that a non-privileged individual cannot "transmit or otherwise communicate" a copyrighted work. Columbia admits that Irwin's activities do not violate the "transmit" portion of this clause. The question then is whether La Mancha "otherwise communicate[s]" movies "to the public."

[4] We hold that La Mancha does not "communicate" the in-room performances at all. Although the term "communicate" is undefined in the Copyright Act, and has countless meanings in common parlance, we are not persuaded that facilitation of the in-room performance means that La Mancha "otherwise communicates" under the transmit clause.

A plain reading of the transmit clause indicates that its purpose is to prohibit transmissions and other forms of

[5] Columbia does not assert the applicability of the second part of clause (1) beginning with "or at any place. . . ." Thus, we need not consider this part of the clause.

broadcasting from one place to another without the copyright owner's permission. The Act provides a definition of "transmit." "To 'transmit' a performance or display is to communicate it by any device or process whereby images and sounds are received beyond the place from which they are sent." Section 101. According to the rule of *ejusdem generis*, the term "otherwise communicate" should be construed consistently with the term "transmit." *See Harrison v. PPG Indus., Inc.*, 446 U.S. 578, 588 (1980) (where general words follow the enumeration of specific terms, general words are read as appling only to other terms akin to those specifically enumerated); *Santa Fe Pacific R. Co. v. Secretary of Interior*, 830 F.2d 1168, 1175 (D.C. Cir. 1987). Consequently, the "otherwise communicate" phrase must relate to a "process whereby images or sounds are received beyond the place from which they are sent." Section 101.

This reading is reinforced by the rest of the transmit clause which refers to the use of transmission devices or processes and the reception by the public of the performance. Devices must refer to transmission or communication devices, such as, perhaps, wires, radio towers, communication satellites, and coaxial cable, while reception of the performance by the public describes acts, such as listening to a radio, or watching — network, cable, or closed-circuit — television "beyond the place" of origination.

In sum, when one adds up the various segments of clause (2), one must conclude that under the transmit clause a public performance at least involves sending out some sort of signal via a device or process to be received by the public at a place beyond the place from which it is sent.[6]

[6] This interpretation is consistent with the latter section of the transmit clause which deals with reception of the performance "in the same place or in separate places and at the same time or at different times." 17 U.S.C. § 101 (1977). The "place" or "places" are perforce "beyond

Nothing that La Mancha has done has violated this common sense construction of the transmit clause. While La Mancha has indeed provided the videodisc player, television screens, guest rooms, and makes videodiscs available in the lobby, we are not persuaded that any transmission of the kind contemplated by the statute occurs. If any transmission and reception occurs, it does so entirely within the guest room; it is certainly not received beyond the place from which it is sent. We are not persuaded that the term "otherwise communicate" can be read so broadly as to include the videodisc arrangements at La Mancha.

CONCLUSION

We conclude that La Mancha does not violate section 106(4) by providing in-room videodisc players and renting videodiscs to its guests. In drawing this conclusion, we are aware that technology has often leapfrogged statutory

the place from which" the performances originate. *See* H.R. Rep. No. 1476, 94th Cong., 2d Sess., *reprinted in* 1976 U.S. Code Cong. & Admin. News 5659, 5678. *See also infra* note 7.

schemes. Nevertheless, it is for Congress, not for the courts, to update the Copyright Act if it wishes to protect viewing of videodisc movies in guest rooms at La Mancha.[7]

AFFIRMED.

[7] On appeal, Spectradyne, Inc. submitted an *amicus curiae* brief. Spectradyne, Inc. transmits movies within a closed circuit system in hotels on a pay per view basis. Spectradyne argues that (1) La Mancha's rental of videodiscs is an exhibition of motion pictures similar to Spectradyne's transmissions; (2) La Mancha's activities are public performances; and (3) the entire closed circuit industry is jeopardized by video rentals.

We reject all of Spectradyne's arguments. Spectradyne's closed circuit system falls squarely within the transmit clause of the Act. It uses wires to transmit a signal, employs a central transmission device, and the signal is received at places beyond the place from which it is sent. While it might be true that Spectradyne's system could be hurt by the arrangements at La Mancha, Congress, not the courts, has the constitutional authority and the institutional ability to accommodate this clash of economic interests. *See Sony Corp. v. Universal City Studios*, 464 U.S. 417, 431 (1984).

APPENDIX E

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

JUDGMENT

This action having come on for hearing before the Court, the Honorable William P. Gray, District Judge, presiding; the claims of the complaint having been duly heard and a decision having been duly rendered thereon; the Court having expressly determined that there is no just reason for delay; and the Court having expressly directed entry of a final judgment as to the claims of the complaint only,

IT IS ORDERED AND ADJUDGED

that plaintiffs Columbia Pictures, Inc., Embassy Pictures, Paramount Pictures Corporation, Twentieth Century-Fox Film Corporation, Universal City Studios, Inc., Walt Disney Productions, Warner Bros. Inc. and CBS Inc. ("plaintiffs") take nothing; that the claims of the complaint be dismissed on the merits; and that the defendants Professional Real Estate Investors, Inc. and Kenneth F. Irwin ("defendants") recover from the plaintiffs their costs of action in the amount of ______ .

Dated at Los Angeles, California, this 22 day of January, 1986.

/s/ WILLIAM P. GRAY
Clerk of the Court

Presented by:

COLLIER, SHANNON, RILL & SCOTT
JEFFREY W. KING
PATRICK J. COYNE

MICHAEL J. DENNIS LAW CORPORATION
MICHAEL J. DENNIS
LAURA J. BARNS

By /s/ Laura J. Barns
Laura J. Barns
Attorneys for Defendants

[Certificate of Service omitted in this printing]

APPENDIX F

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 83-2594 WPG

COLUMBIA PICTURES INDUSTRIES, INC., *et al.*,
Plaintiffs,

v.

PROFESSIONAL REAL ESTATE INVESTORS, INC., *et al.*,
Defendants.

FILED
JAN 14 1986
CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY DEPUTY

FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER AND RELATED COUNTERCLAIM

This is a civil action brought by eight movie studios alleging copyright infringement. Plaintiffs contend in their complaint that defendants operate a resort facility and violate plaintiffs' copyrights to certain motion pictures by renting videodiscs of those motion pictures to the guests who stay at the resort for viewing on videodisc players placed by defendants in the guest rooms for that purpose. The central issue raised by the complaint is whether guests at the resort are "publicly performing" the videodiscs when they view the videodiscs in the privacy of the rooms they have rented.

The defendants filed an answer, which denied any wrongdoing, and filed counterclaims essentially alleging antitrust violations under the federal and state laws and unfair competition. Defendants' counterclaims were not at issue in the present motions.

The parties have filed cross summary judgment motions concerning the plaintiffs' copyright infringement claim. The parties have thoroughly briefed the infringement issue and a hearing on the cross-motions was held on December 16, 1985. Plaintiffs' claim of copyright infringement fails as a matter of law. The hotel rooms involved in this action are not public places under the copyright law. The findings of fact and conclusions of law, which form the basis of this opinion, are provided below.

FINDINGS OF FACT

A. Parties

1. The plaintiffs are eight movie studios that claim to own the copyrights in the motion pictures alleged to have been infringed. Plaintiffs are Columbia Pictures, Inc., a Delaware corporation; Embassy Pictures, a joint venture organized under the laws of the State of California between Lear Productions, Inc. and Perenchio Pictures, Inc.; Paramount Pictures Corporation, a Delaware corporation, Twentieth Century-Fox Film Corporation, a Delaware corporation; Universal City Studios, Inc., a Delaware corporation; Walt Disney Productions, a California corporation; Warner Brothers, Inc., a Delaware corporation; and CBS, Inc., a New York corporation.

2. Defendants are Professional Real Estate Investors, Inc., a California corporation, and its principal owner and chief operating officer, Kenneth F. Irwin. As pertinent to this case, Professional Real Estate Investors, Inc. operates a resort known as La Mancha Private Club and Villas, located at 444 North Avenida Caballeros, Palm Springs, California. Mr. Irwin, a resident of the State of California,

is a principal shareholder, director and chief operating officer of Professional Real Estate Investors, Inc. Mr. Irwin, in his capacity with Professional Real Estate Investors, Inc., serves as the chief operating officer and manager of the La Mancha resort.

3. The complaint also names as a defendant Erland Kyllonen. Mr. Kyllonen does not appear to have been served with the complaint, has not answered the complaint, and has never made an appearance in this matter.

B. Jurisdiction and Venue

4. This action arises under the copyright laws of the United States. 17 U.S.C. § 101, et seq. (1982). This court has subject matter jurisdiction over this action pursuant to Section 1338(a) of Title 28 of the United States Codes, and venue lies in this district under Section 1400(a) of Title 28 of the United States Codes. 28 U.S.C. §§ 1338(a), 1400(a) (1982).

C. The Copyrights at Issue

5. Plaintiffs alleged in their complaint infringement of 74 motion pictures for which plaintiffs own the copyrights. Defendants rented copies of 49 for viewing by their guests in their hotel room. In their summary judgment motion, plaintiffs omitted nine of the copyrighted motion pictures named in the complaint because they had no proof that they had in fact been infringed. As a result of disputes over ownership raised by defendants, plaintiffs withdrew their claim for eight more of the alleged copyrighted motion pictures. Defendants claim that plaintiffs had also failed to show that they owned the copyrights for at least eight more of these 74 motion pictures. In light of my decision today, this issue need not be addressed.

D. The Allegations of Copyright Infringment

6. The defendants operate the La Mancha resort in Palm Springs, California. The resort rents 50 units that it refers

to as "guest villas" and which are available in one, two or three bedroom floor plans. Each villa has its own kitchen, living room, bath, patio and most have private swimming pools.

7. There is a dispute as to whether La Mancha is a private club or a hotel. This issue does not have to be reached in light of my decision. Without deciding the issue or prejudicing the parties' arguments, concerning this issue, I will consider the La Mancha resort a hotel for the purposes of this decision.

"7A. Defendants' resort, including its guest accommodations, is unquestionably open to the public. Indeed, defendants advertise La Mancha nationwide as a 'destination resort', offer group rates and offer the La Mancha villas by the night. Moreover, to stay at La Mancha, one need only call the hotel and reserve a room or make a reservation through a travel agent. No proof of membership in the 'club' is required for such a reservation. Nor is any such proof of membership required of a guest registering at La Mancha. Upon registering, La Mancha's front desk personnel request only a credit card and driver's license.

7B. To attract members of the general public, defendants have advertised La Mancha in several prominent national and regional publications such as The New Yorker Magazine, Forbes Magazine, Los Angeles Times, Chicago Tribune, Los Angeles Magazine, San Diego Magazine and Travel & Leisure. In addition, Irwin has prepared and distributed press releases and brochures to inform the public about La Mancha."

8. Commencing in late 1981, defendants purchased videodisc players and over the course of the next few months installed them in each rental unit. One disc player is also located in the gift shop for demonstration use only. None of the videodisc players is or was located in common areas such as the lobby or restaurant of the defendants' resort.

There is no allegation or proof that the defendants ever showed movies in any of common areas at the resort.

9. Defendants purchased an inventory of videodisc movies from RCA corporation. RCA is a licensed manufacturer and distributor of the copyright movies contained on the videodiscs. Plaintiffs do not contend that defendants had obtained, rented or sold any illegal or pirated copies of the motion pictures. The videodiscs at issue were all lawfully obtained and are authorized and lawful copies of plaintiffs' motion pictures. There is also no claim that defendants retransmitted by way of cable or other means any videodisc movies to any of the rental units at their resort.

10. Guests at defendants' resort could, for a fee ranging from $ 5.00 to $ 7.50, rent the videodiscs, take them back to their accommodations, and watch the movie on the televisions sets and videodisc players furnished in each unit. Guests at defendants' resort could watch a rented video movie at any time and could rent as many videodisc movies as desired. The videodisc rental fee would be included on the guests' bill. Defendants advertise the availability of these discs.

11. In the fall of 1982, plaintiffs' counsel sent a letter to defendant protesting their rental of videodiscs to guest staying at defendants' resort. After an exchange of correspondence, plaintiffs filed their copyright infringement claim on April, 25, 1983.

12. Any conclusion of law stated below, to the extent that it constitutes a finding of fact, is herein incorporated by reference as an additional finding of fact.

CONCLUSIONS OF LAW

A. Issues

1. The issue raised by the complaint is one of the first impressions—whether guests at a hotel or similar accommodations are "publicly performing" the videodiscs when they view the videos in the rooms that they have rented. Plaintiffs argue that a hotel, even including its private bedroom accommodations, is "a place open to the public" under the copyright law, and that viewing copyrighted motion pictures on video equipment in the hotel room or similar accommodation would constitute a public performance under the copyright law.

2. Defendants argue that hotel rooms have traditionally been considered private and, therefore, would not be public places under the copyright law. Defendants contend that the purpose of renting a hotel room is to obtain short-term living accommodations while one is away from home, and not to view motion pictures. I conclude that the viewing of a motion picture in a hotel room is no different from viewing movies in a private home, which is admittedly a private use and not a public performance under the copyright law.

3. There is no issue but that the defendants have the right to rent videodisc movies. Under the first sale doctrine, any person who purchases or obtains a legitimate copy may "without authority of the copyright owner . . . sell or otherwise dispose of the possession of that copy . . . ." 17 U.S.C. § 109(a); *accord, United States v. Moore*, 604 F.2d 1228, 1232 (9th Cir. 1979). In enacting the copyright law, Congress expressly stated that "the person to whom the copy . . . is transferred is entitled to dispose of it by sale, rental, or any other means." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79, *reprinted in*, 1976 U.S. Code Cong. & Ad. News 5659, 5693. The law allows the copyright owner to set and collect a royalty when he first sells each copy of the work. Additional royalties on subsequent sales or rentals are not required under the copyright law. Defendants purchased authorized copies of the videodiscs for which plaintiffs were paid a royalty on that sale. Accordingly, defendants obtained the right to rent

the videodiscs at issue, so long as they do so not for the purpose of unauthorized public performance.

4. Defendants have raised six counterclaims which principally allege various antitrust and unfair competition practices. The validity of these claims was not raised in the summary judgment motions.

5. Defendants also raised a number of factual issues which they allege would preclude plaintiffs' summary judgment. Inasmuch as I am denying plaintiffs' summary judgment motion, these issues need not be addressed.

6. There is also no claim that defendants performed the video movies in any of the common areas of its resort. Plaintiffs also do not claim that defendants played a video movie and retransmitted it through a cable or similar system to each of the rented units. Rather, the sole issue to be decided is whether a hotel room in the defendants' facility is "a place open to the public" under the copyright law and whether the viewing of video movies in such accommodation is public performance.

B. A Place Open to the Public Under the Copyright Laws

7. Under the copyright law, a movie is publicly performed if viewed either "at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances gathered . . ." 17 U.S.C. § 101 (1982). The record indicates that the movie viewed in the accommodations at defendants' resort are limited to "a normal circle of a family and its social acquaintances." As a result, in order for plaintiffs to prevail, the rental units at defendants' resort must be considered "a place open to the public."

8. Private places and private uses of video movies are not limited to homes.

C. Private Nature of Hotel Rooms

9. In order for plaintiffs to prevail, it is necessary to rule, at a minimum, that all hotel rooms are public places under the copyright laws. Hotel rooms, however, have traditionally been considered private places under other laws. A hotel room is subject to the Fourth Amendment protection under the United States Constitution because guests at hotels have a reasonable expectation of privacy while they are in their rented room. *Hoffa v. United States,* 385 U.S. 293, 301, 87 S. Ct. 408 (1966).

10. Similarly, it is also well established under the common law that a guest at a hotel has a right of privacy to the peaceful enjoyment of the accommodation. *People v. Vaughn,* 65 Cal.App.2d 84, 150 P.2d 964, 976-68 (1944). In fact, an innkeeper is liable for damages if he or his employees unjustifiably enter the guest's room. *Frewen v. Page,* 280 Mass. 499, 131 N.E. 475 (1921). Although not binding, these rules provide guidance on the private nature of hotel rooms.

11. When occupied, a hotel room is private and the occupant expects and is entitled to such privacy. The purpose of renting a hotel room is to obtain living accommodations whether short-term or long-term. In this respect, hotel rooms are no different from private homes. Similarly, viewing movies in a hotel room would be an incidental form of entertainment, and is no different from viewing movies in a home. Home use of videos is admittedly a private and not a public performance.

12. For these reasons, a hotel room is not a place open to the public under the copyright laws and the viewing of video movies in such accommodations is not a public performance under the copyright laws. *See 2 Nimmer on Copyright* § 8.18[C][1][d] (1985).

D. Redd Horne and Aveco Cases

13. This decision is not contrary to the recent decisions in the Third Circuit in *Columbia Pictures Indus., Inc. v.*

Redd Horne, Inc., 568 F.Supp. 494 (W.D. Pa. 1983), *aff'd*, 749 F.2d 154, (3d Cir. 1984) and *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 612 F.Supp. 315 (M.D. Pa. 1985). The defendants in both those cases operated video stores in which they set up small rooms in the back for the purpose of viewing movies. For a fee, customers could rent the video movies and view them in these small viewing rooms. The courts in those cases considered those viewing rooms to be mini-movie theaters and thus, like a movie theater, public places. As a result, viewing movies in these public mini-theaters was a public performance.

14. The principal and sole purpose of the viewing rooms in the Redd Horne and Aveco cases was to watch movies. In contrast, a hotel is a place to live while away from one's permanent home. The primary or even a principal reason of renting a hotel room is not to view movies. At best, the viewing of movies in a hotel room is incidental entertainment, no different from viewing movies in the privacy of one's home.

E. Conclusion

15. The plaintiffs, as a matter of law, cannot prevail on their copyright claims in this case. Hotel rooms, and thus the units rented at defendants' resort, are not places open to the public under the copyright law, and viewing copyrighted motion pictures on video equipment in a hotel room is not public performance under the copyright law.

16. Defendants are therefore entitled to summary judgment on these copyright issues. There are no genuine issues of material fact which would preclude entry of such a judgment in favor of the defendants.

17. Any finding of fact stated above, to the extent that it constitutes a conclusion of law, is hereby incorporated by reference as an additional conclusion of law.

ORDER

1. Upon consideration of the cross-motions for summary judgment, the briefs filed with regard to those motions, and the argument of counsel, the court has determined that there is no genuine issue of material fact which precludes summary judgment for the defendants on the issues raised in the complaint and that the defendants are entitled to summary judgment on these issues as a matter of law pursuant to Fed. R. Civ. P. 56(a).

2. It is hereby ordered, adjudicated, and decreed that the rental by defendants of videodiscs of plaintiffs' copyrighted films to members and guests at defendants resort for the purpose of permitting them to view those motion pictures in the units they have rented does not violate plaintiffs' exclusive rights under Section 106 of the copyright law (17 U.S.C. § 106) to perform publicly and to authorize the public performance of such motion pictures.

3. The claims raised in plaintiffs' complaint are, therefore, dismissed and final judgment shall be entered in favor of defendants on these claims. Plaintiffs' motion for Summary Judgment and Permanent Injunction is denied.

4. Plaintiffs shall pay the defendants' cost incurred in defending this action.

5. The clerk shall enter a judgment in accordance herewith as a final judgment pursuant to Fed. R. Civ. P. 54(b), the court expressly determining that there is no just reason for delay.

The findings and conclusions, although prepared by counsel, are in substantial complete accord with the opinion and decision that I rendered orally at the conclusion of the hearing on the cross motions.

Dated: JAN. 13 1986 /s/ WILLIAM P. GRAY

HON. WILLIAM P. GRAY
United States District Court
Central District of California

Proposed by:

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APPENDIX G

15 U.S.C. § 1:

Trusts, etc., in restraint of trade illegal; penalty

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $10,000,000 if a corporation, or, if any other person, $350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

15 U.S.C. § 2:

Monopolizing trade a felony; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $10,000,000 if a corporation, or, if any other person, $350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

APPENDIX H

Cal. Bus. & Prof. Code § 16720 (West 1987):

§ 16720. Trust

A trust is a combination of capital, skill or acts by two or more persons for any of the following purposes:

(a) To create or carry out restrictions in trade or commerce.

(b) To limit or reduce the production, or increase the price of merchandise or of any commodity.

(c) To prevent competition in manufacturing, making, transportation, sale or purchase of merchandise, produce or any commodity.

(d) To fix at any standard or figure, whereby its price to the public or consumer shall be in any manner controlled or established, any article or commodity of merchandise, produce or commerce intended for sale, barter, use or consumption in this State.

(e) To make or enter into or execute or carry out any contracts, obligations or agreements of any kind or description, by which they do all or any or any combination of any of the following:

(1) Bind themselves not to sell, dispose of or transport any article or any commodity or any article of trade, use, merchandise, commerce or consumption below a common standard figure, or fixed value.

(2) Agree in any manner to keep the price of such article, commodity or transportation at a fixed or graduated figure.

(3) Establish or settle the price of any article, commodity or transportation between them or themselves and others, so as directly or indirectly to preclude a free and unrestricted competition among themselves, or any purchasers or consumers in the sale or transportation of any such article or commodity.

(4) Agree to pool, combine, or directly or indirectly unite any interests that they may have connected with the sale or transportation of any such article or commodity, that its price might in any manner be affected.

Cal. Bus. & Prof. Code § 16726 (West 1987):

§ 16726. Trusts against public policy

Except as provided in this chapter, every trust is unlawful, against public policy and void.